2008/2009 : Report 13

OFFICE OF THE

Auditor General of British Columbia

Public Sector Governance

A Guide to the Principles of Good Practice

How are We Doing?

The Public Reporting of Performance Measures in British Columbia

December 2008

2008/2009 : Report 13

OFFICE OF THE

Auditor General of British Columbia

Public Sector Governance

A Guide to the Principles of Good Practice

How are We Doing?

The Public Reporting of Performance Measures in British Columbia

December 2008

Library and Archives Canada Cataloguing in Publication

British Columbia. Office of the Auditor General

Governance good practice principles ; How are we doing? : the public reporting of performance measures in British Columbia / Auditor General of British Columbia.

(Report ; 2008/2009: 13)

Contents: Governance good practice principles -- How are we doing? : the public reportin, of performance measures in British Columbia.

ISBN 978-0-7726-6090-9

1. Administrative agencies--British Columbia--Auditing. 2. Government productivity--British Columbia--Evaluation. 3. Finance, Public--British Columbia--Accounting. I. Title. II. Title: How are we doing? : the public reporting of performance measures in British Columbia. III. Title: The public reporting of performance measures in British Columbia. IV. Series: British Columbia. Office of the Auditor General. Report ; 2008/2009: 13.

HJ9921.Z9B74 2008 352.4'3909711 C2008-907819-5

OFFICE OF THE
Auditor General
of British Columbia

LOCATION:
8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:
Monday to Friday
8:30 a.m. — 4:30 p.m.

TELEPHONE:
250 387-6803
Toll free through Enquiry BC at: 1 800 663-7867
In Vancouver dial: 604 660-2421

FAX: 250 387-1230

E-MAIL: bcauditor@bcauditor.com

WEBSITE:
This report and others are available at our website, which also contains further information about the Office: www.bcauditor.com

REPRODUCING:
Information presented here is the intellectual property of the Auditor General of British Columbia and is copyright protected in right of the Crown. We invite readers to reproduce any material, asking only that they credit our Office with authorship when any information, results or recommendations are used.

OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 387-6803
Facsimile: 250 387-1230
Website: www.bcauditor.com

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2008/2009 Report 13: Public Sector Governance — A guide to the principles of good practice and How are we doing? The public reporting of performance measures in British Columbia.

John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
December 2008

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

Table of Contents

Auditor General's Comments 1

Public Sector Governance: A Guide to the Principles of Good Practice 3

Part I: The Importance of Public Sector Governance 5

What is governance? 5

The need for governance "good practice" guidelines in the public sector 5

The five key principles underpinning good governance 6

Our aim in writing these governance guidelines 7

Part II: Good Practice Guidelines for Governance 11

Defining good governance 11

Understanding responsibility for governance 11

Applying good practices to public sector governance 12

The "House of Governance" framework 12

Leadership, ethics and a culture committed to good public sector governance 14

Stakeholder relationships (internal and external) 17

Risk management 20

Internal compliance and accountability 21

Planning and performance monitoring 23

External compliance and accountability 25

Information and decision support 27

Review and evaluation of governance arrangements 29

Cross-government guidance 30

Appendices

Appendix A: Legislative Environment in British Columbia 33

Appendix B: Bibliography 37

Response 39

Table of Contents

How are we doing? The public reporting of performance measures in British Columbia 41

Executive Summary 43

Detailed Report 47

Background 47

Key findings 51

Appendices 65

Appendix A: Performance Measure Survey Evaluation Criteria 67

Appendix B: Organizations Examined in the Survey, by Type of Organization 73

Government Response 77

Auditor General's Comments

John Doyle
Auditor General

This document is comprised of two separate reports, each of which reflects different aspects of public sector governance within the Province of British Columbia. The first report, "Public Sector Governance — A Guide to the Principles of Good Practice" describes a "House of Governance" best practices governance model for public sector entities. The second report, "How are We Doing? The Public Reporting of Performance Measures in British Columbia" reflects the results of our survey of performance measures currently being reported by public sector entities in British Columbia. Performance measure reporting is an integral part of the "house of governance" and reflects a significant portion of the information by which public sector entities are held accountable by their stakeholders.

Combined, we believe these two reports provide strong foundational tools to assess public sector governance and accountability. These two reports describe, in broad terms, what public sector entities should be doing and, more specifically, what they are doing in the area of performance measure reporting. The major issues and themes discussed in both these reports are applicable to all entities providing services to the residents of British Columbia.

In some ways compiling a best practices model for public sector governance is the easy part. The next stage, incorporating the principles in this model, will be much more challenging for some. While the principles involved in our good practices model may appear to be obvious and common sense, considerable effort and commitment will still be required by many organizations to embed these principles in the way they conduct their business and deliver services to the public.

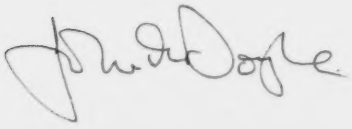
The survey underlying our performance measure report represents our first attempt to capture a snap shot of the nature of performance measures provided across the public sector in BC. Subsequent reports from my office will consider other important aspects of performance measure reporting. Many public sector entities appear to view the preparation of their annual report as merely a compliance exercise — creating and publishing a report to meet a legislated requirement or public expectation each year, rather than a clear document describing what was planned, what the organization achieved, and what this means. I note as well that many organizations are not required to follow the BC Reporting

Auditor General's Comments

Principles. These principles are an important tool to ensure the quality of public sector performance reporting within the Province and all public entities should be required to meet the standard set by them.

In summary, these two reports represent foundational pieces we will build upon in the future.

I would like to thank the people within the various organizations we contacted during the preparation of these reports. The quality of our results would not have been possible without their cooperation.



John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
December 2008

Audit Team

Public Sector Governance: A Guide to the Principles of Good Practice

Malcolm Gaston, Assistant Auditor General
Jim Neily, Director
Chris Newton, Senior Manager
Spencer Goodson, Auditor

How are We Doing? The Public Reporting of Performance Measures in British Columbia

Malcolm Gaston, Assistant Auditor General
Jim Neily, Director
Paul Nyquist, Director
Dawn Ngo, Audit Associate
Shaun Trowsdale, Audit Associate
Violet Louie, Audit Associate
Jesse Skulmoski, Audit Analyst

Public Sector Governance

A Guide to the Principles of Good Practice

What is governance?

"Travelling the road of good corporate governance won't guarantee success, but not travelling upon it will almost certainly guarantee failure."

Senator The Honourable Eric Abetz (2003), "The Role of Corporate Governance in Improving Transparency and Accountability in the Public Sector" quoted in Building Better Governance, Australian Public Service Commission, (2007, p. 19).

"Governance" refers to the structures and processes by which an organization is directed, controlled and held to account. The structures and processes are not ends in themselves. Rather, they are the means to help an organization achieve its objectives.

Whether in the private sector or public sector, good governance occurs when an organization has in place structures and processes that ensure the organization is able to:

- deliver goods, services or programs effectively and efficiently — "good performance"; and
- meet the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness — "good conformance".

When governance is poor, a host of problems can arise, leading to the decline or even the demise of an organization.[1]

The need for governance "good practice" guidelines in the public sector

Each day in British Columbia, decisions are made in the public sector that significantly affect the social and cultural well-being of every citizen. The public sector manages billions of dollars in assets and liabilities and oversees the delivery of critical services in such areas as health care, education and public utilities.[2]

Government relies on many organizations to achieve its goals and objectives and to provide the services that British Columbians expect to receive and have come to rely on. Good governance is therefore essential for ensuring that government is allocating provincial resources wisely and fairly, and that it is serving the public interest in an open and transparent manner — which in turn is essential for building and maintaining citizens' confidence in the public sector.

---

1 S. Bartos, 'Public Sector Governance – Australia' as quoted in Australian Public Service Commission, 'Building Better Governance', p. 2, 2007.

2 Elizabeth Watson, 'Public-sector corporate governance: British Columbia's best practice reforms' Ivey Business Journal, p. 1, March/April 2004.

The five key principles underpinning good governance

Practised on a daily basis, governance is typically about the way public servants make decisions and implement policies.[3] Having appropriate structures and processes in place to guide actions is important, but at every level within an organization—from the individual through to sections, branches and all the way up to the whole organization—there must also be a common understanding of what good governance means.

Five key principles underpin good governance. An organization that practises good governance is one that always, in word and action, demonstrates: **a**ccountability; strong **l**eadership; **i**ntegrity; **s**tewardship; and **t**ransparency (the A.L.I.S.T.).

Accountability is the process whereby public sector organizations, and the individuals within them, take responsibility for their decisions and actions. They are willing to submit themselves to scrutiny to ensure that the responsibilities conferred—pertaining to everything from probity and ethics to the effective and efficient implementation of programs—are answered for.

Strong **leadership** sets the "tone at the top" and is absolutely critical if an entire organization is to embrace good governance. Public sector leaders must not only demonstrate ethical behaviour themselves, but require ethical behaviour of all staff throughout the organization and a commitment by everyone to the practice of good governance.

Acting with **integrity** means being impartial, ethical and not misusing information or resources.[4] An organization with integrity maintains high standards of propriety and probity in the stewardship of public funds. It does this by having an effective control framework in place, abiding by relevant legislation, regulations and policies (such as the British Columbia Public Sector Values and Standard of Conduct) and instilling high standards of professionalism at all levels within the organization. An organization's integrity is reflected both in its decision-making procedures

[3] Australian Public Service Commission, 'Building Better Governance', p. 1, 2007.

[4] ibid p. 2.

"Canadians are seeking the same assurances from all levels of government; that government will:

- spend taxpayers' money as though it were their own;
- provide better and more accessible information on how public funds are being used and what outcomes result from public expenditures; and
- keep the promises that they make...".

J. Abelson, Ph.D., and F. Gauvin, M.A., Canadian Policy Research Networks Inc. in: *Review of the Governance Framework for Canada's Crown Corporations*, Treasury Board of Canada Secretariat, (May 2004, p. 3).

and in the quality of its financial and performance reporting. The British Columbia Public Service Values place integrity above all other values.

Stewardship is the act of looking after something on behalf of others to protect or improve its sustainability. In the public sector, it relates to the way public officials exercise their powers on behalf of the public they serve. The resources that public employees use are held in trust; these resources are not privately owned. A public sector organization demonstrates stewardship by maintaining or improving its capacity to serve government and the public interest over time. This applies to ensuring financial sustainability and the efficient and effective management of resources, as well as maintaining the trust placed in the organization.

Transparency is achieved when an organization's actions are open to scrutiny. It means stakeholders, the public and employees have access to full, accurate and clear information about the organization's decisions. Good governance requires transparency so that all players can have confidence in the decision-making processes and actions of public sector organizations.[5]

Our aim in writing these governance guidelines

Our study did not find a generally accepted set of governance principles for the public sector. We therefore set out to write "good practice" principles to assist all public sector organizations, regardless of sector, size or structure, in developing and applying governance effectively.

We researched what other political jurisdictions and organizations around the world have done in governance work. Many common principles and themes emerged. From these, we developed guidelines appropriate to the environment in British Columbia but not necessarily tailored to specific sectors or organizations. Our governance good practice guidelines are presented in the second part of this report.

[5] All principles and definitions were adapted from Australia National Audit Office's 'Public Sector Governance – Volume 1' p. 8, 2003.

Based on our extensive literature review, we also compiled a list of the readings that are most relevant to the environment in British Columbia. This is presented in Appendix B: Bibliography.

A note about the public sector governance environment

British Columbia's public sector is made up of core government agencies (ministries) and a variety of Crown agencies that carry out public functions:

- Ministries are run by Deputy Ministers who are responsible for the programs within their Ministers' portfolios.
- Crown agencies—more than 150 of them—include commercial Crown corporations, service delivery corporations, school boards, universities and colleges, health authorities and other health organizations. These are overseen by boards and, in most cases, consider the government to be the, or one of the, primary stakeholders. Each of the Crown agencies falls under the authority of a Minister.

There are obvious differences in the governance structures and processes between ministries and the Crown agencies. However, we believe that the principles we provide in our guidelines are at a high enough level to apply to all organizations. The good practice recommendations we provide range from the generic to the specific and their applicability may depend on the type of structure the public organization has in place and its specific circumstances.

"Government must pursue excellence in leadership in every area over which it has control."

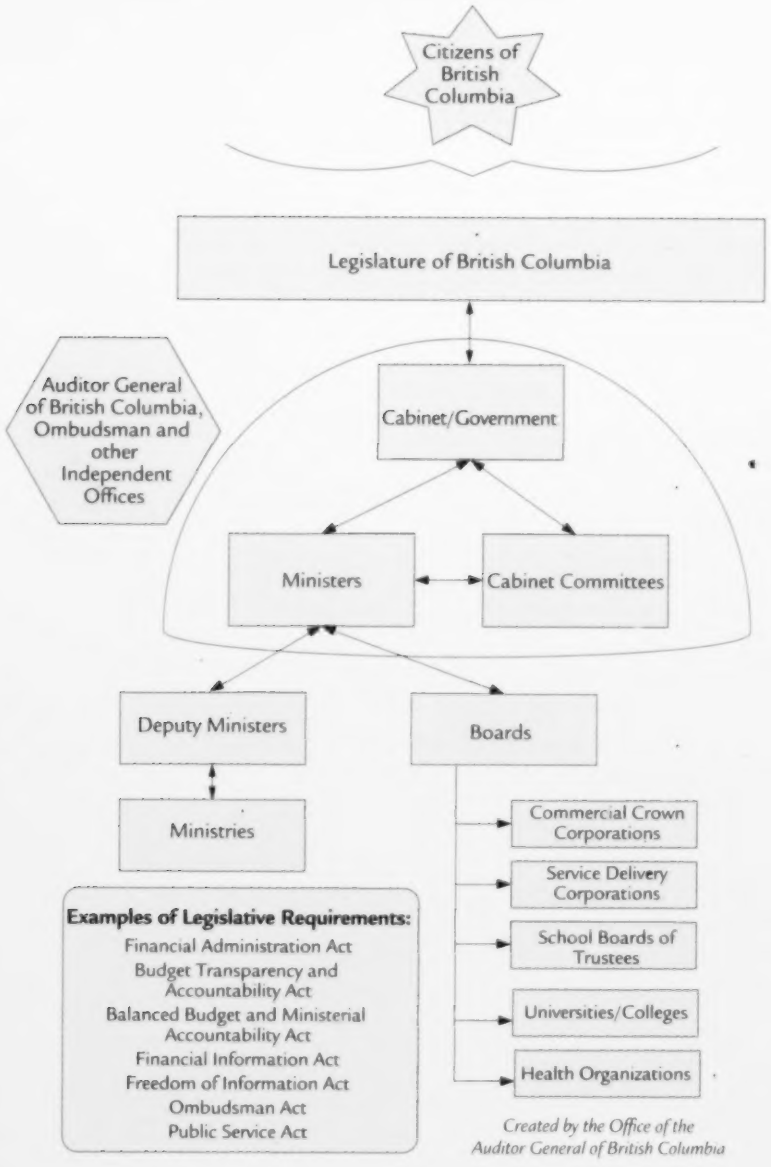
E. Watson, "Public-sector corporate governance: British Columbia's best practice reforms" in Ivey Business Journal, (March/April 2004, p. 8).

Obviously, some core governance principles (such as accountability, leadership and transparency) are affected by public sector legislation. It is therefore important that public sector organizations understand how legislation, and any subsequent changes to it, affect their governance environment.

Exhibit 1, Public Sector Environment of British Columbia, shows some of the legislative requirements that influence public sector governance. For more detail on this environment, see Appendix A.

Exhibit 1:

Public Sector Environment of British Columbia



Defining good governance

"Governance" refers to the structures and processes by which an organization is directed, controlled and held to account. "Good governance" is governance underpinned by five core principles. An organization that uses good governance is one that always, in word and action, demonstrates: **a**ccountability; strong **l**eadership; **i**ntegrity; **s**tewardship; and **t**ransparency.[6]

Understanding responsibility for governance

> "It is not an 'us and them' situation with only executives and managers responsible for governance matters—everyone ... is responsible."
>
> Australian Public Service Commission, Building Better Governance (2007, p. 7).

The responsibility for governance is that of the governing body of an organization. Governing bodies differ between government organizations, but ultimately, each body is responsible for ensuring that the framework under which it governs is strong and robust.

In different parts of the public sector, the group that fulfills the role of a board of a private company is described differently—and, in some areas, it may not be immediately obvious what the equivalent group is.[7] For a Crown corporation, the governing body is clearly identified as the Board. The members of the board are publicly listed and their responsibilities are generally well defined.

For a ministry, however, the lines of responsibility are less clear. The nature of the political system in British Columbia means that Ministers are ultimately responsible for their ministry, yet they may have very little to do with day-to-day operations. Thus, while the Minister is accountable to the Legislative Assembly and Cabinet, it is the Deputy Minister and others who actually run the ministry.

In terms of accountability, the Executive (Ministers/Cabinet of a government) usually carry a collective responsibility for their decisions. Individual Ministers are usually accountable for the operation of their ministries, meaning they are responsible for the outputs of programs.[8]

---

[6] Adapted from Australian National Audit Office, "Public Sector Governance – Volume I," July 2003.

[7] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 1, August 2001.

[8] ibid p.58.

Part II: Good Practice Guidelines for Governance

Applying good practices to public sector governance

The importance of governance in the British Columbia public sector is made clear in the government's Core Policy Manual:

> "Governance encompasses the roles, responsibilities and accountabilities of the Legislative Assembly representing the public, and the organizations and management of government. Governance is the structure and processes that support the realization of overall objectives and the strategies to achieve them."

The "good practice" guidelines presented below focus on the critical part that structure and process play in helping public sector organizations achieve good governance and, in turn, obtain stakeholder confidence. Good governance is more than just a checklist approach. It is important that the good practice guidelines be seen as a way to achieve objectives, not an end in of themselves. At the same time, every organization must understand how legislation and regulations can affect its governance structures and processes.

Also important to note is that while the good governance practice guidelines apply to all public sector organizations, not all practice details will be applicable in all cases as the particular circumstances of each organization may limit their applicability. In other cases, the costs of implementing a recommendation may outweigh the benefits to be derived.[9]

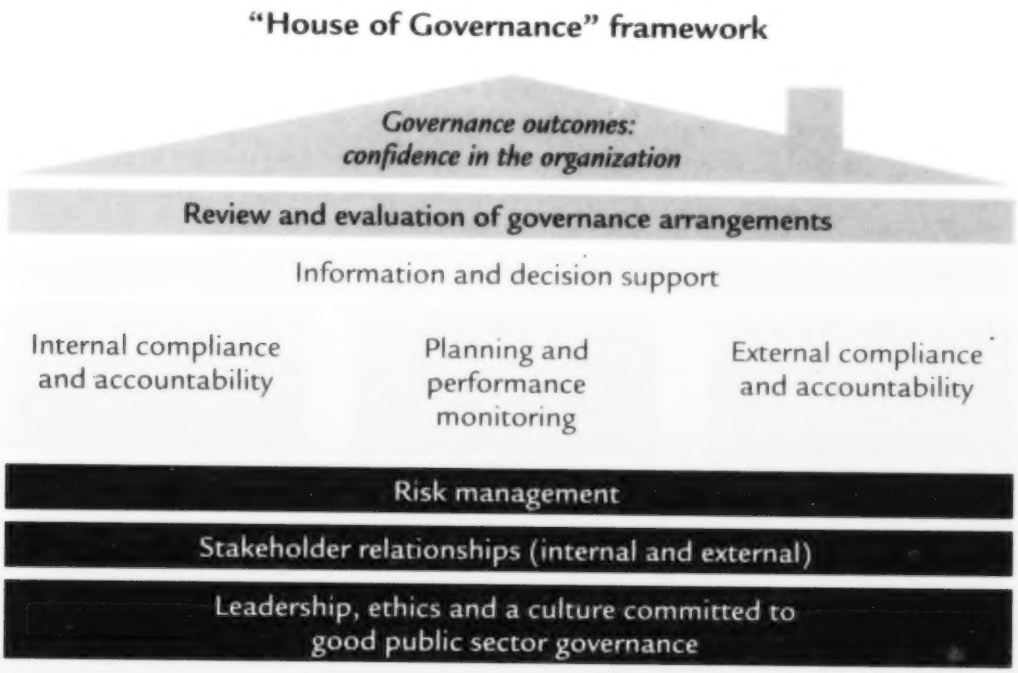
The "House of Governance" framework

The structure and process elements that constitute good public sector governance can be thought of as being made up of the interconnecting elements in a house. The Australian National Audit Office published the "House of Governance" framework for the public sector (Exhibit 2).

[9] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 3, August 2001.

Exhibit 2:

"House of Governance" framework


"House of Governance" framework
Governance outcomes: confidence in the organization
Review and evaluation of governance arrangements
Information and decision support
Internal compliance and accountability
Planning and performance monitoring
External compliance and accountability
Risk management
Stakeholder relationships (internal and external)
Leadership, ethics and a culture committed to good public sector governance

Source: Australian National Audit Office 'Public Sector Governance', 2003.

The eight elements in this framework are summarized below, starting from the foundation.

- *Leadership, ethics and a culture committed to good public sector governance* supports the entire house. Without this element, there would be no governance foundation to build on.
- *Stakeholder relationships (internal and external)* influence the success and effectiveness of the model's three central components: *internal compliance and accountability, planning and performance monitoring,* and *external compliance and accountability.* Effective stakeholder management is also key to risk management.
- *Risk management* ensures that risks are identified and managed appropriately within the model's three central components (the "windows" in the house).

- *Internal compliance and accountability* are related to *external compliance and accountability* in the sense that the information reported externally would normally be a sub-set of the information generated internally to manage the organization.
- *Planning and performance monitoring* provide the management framework from which both external and internal compliance and accountability processes occur.
- *Information and decision support* is provided to the three central components, ensuring that the right information gets to the appropriate people in a timely manner.
- *Review and evaluation of governance arrangements* is an ongoing process. Its goal is to continuously improve the organization's governance structure and processes and, as a result, this process could potentially impact all elements of the "House of Governance".

Leadership, ethics and a culture committed to good public sector governance

An organization's governing body is ultimately responsible for good public sector governance. The implementation, evaluation and improvement of an organization's governance structures and processes, on the other hand, are the responsibility of the organization's leadership.

In effecting good governance, an organization's leaders take charge by:

1) ensuring that appropriate governance structures and processes are implemented, evaluated and improved; and
2) demonstrating good governance through their own behaviour (setting the "tone at the top").

> "The 'tone at the top' strongly influences virtually all elements of governance."
>
> Australian Public Service Commission, *Building Better Governance*, (2007, p.6).

Leaders must lead by example, displaying to internal and external stakeholders a commitment to instituting and supporting good governance structures and processes, ethical behaviour throughout the organization, and an organization-wide commitment to good governance.

Good practice for good governance in a public sector organization

The governing body of an organization should consider the following for leadership good practices:

- Ensure that its leaders have:
  - clearly defined mandates/responsibilities.
    - ☐ Clearly defined means documented. If responsibility for aspects of governance is delegated, then this must be clearly documented.
    - ☐ Well-documented mandates/responsibilities ensure that leaders clearly understand their roles and responsibilities. This enables governing bodies to review leadership mandates.
    - ☐ Overarching responsibility to ensure implementation, evaluation and improvement of good governance structures and processes remains with the leadership, regardless of delegation.
  - the skills, knowledge and available resources to lead effectively.[10]
    - ☐ A leader's personal skills and knowledge are important in his or her ability to effectively lead an organization and support good governance. These highlight the importance of an organization's recruitment and hiring policies and of its initial and ongoing training support for leaders.
    - ☐ External to the leader's personal leadership skills is ensuring that resources to support effective leading are available and in place. Support generally comes in two forms: information and human resources.
- Ensure that a formal code of conduct is adopted by the organization. The code of conduct needs to:[11]
  - commit the organization to the highest standards of behaviour;
  - be developed in consultation with all organizational stakeholders;

"Regardless of organizational type, corporate governance regimes are unlikely to be effective where there is a lack of clarity about the participants involved, their relationships with each other and their respective responsibilities."

Board Resourcing and Development Office of British Columbia, *Best Practice Guidelines*, (February 2005, p. 3).

[10] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', pp. 21-25, August 2001.

[11] ibid p. 22.

  - receive total commitment from the governing body and organizational leadership through formal communication and their own behaviour; and
  - be sufficiently detailed to provide a clear guide for the expected behaviour of all employees.
- Put appropriate structures and processes in place to ensure the organization is not influenced by prejudice, bias or conflicts of interest.[12]
  - Processes to deal with conflict of interest should be in place to ensure unbiased use of public funds and resources.
  - Clear guidelines for such processes must support openness and transparency of decision-making and means of reporting and investigating concerns raised by stakeholders, ensuring complete anonymity of the reporter.
  - Leaders should be aware that the appearance of a conflict of interest could be as damaging as the existence of a real conflict.
- Ensure that the members of its governing body exercise leadership by conducting themselves in accordance with high standards of behaviour, as a role model for others in the organization.
  - Governing body members have a special responsibility to exemplify the standards that they expect others within the organization to meet.[13]
  - Leaders must ensure that the organization operates fairly, honestly and openly.
- Recognize that good governance flows from a shared ethos or culture, as well as from systems and structures. Good governance cannot be fully achieved simply by complying with a set of rules. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour.

[12] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', pp. 21-25, August 2001.

[13] ibid p. 21.

- A hallmark of good governance is the development of shared values that become part of the organization's culture, underpinning policy and behaviour throughout the organization.
- The governing body should keep these values at the forefront of its own thinking and use them to guide its decision-making.[14]

Stakeholder relationships (internal and external)

Public sector organizations have many stakeholders, both internal and external. Understanding the various responsibilities, accountabilities and needs of each stakeholder group therefore enhances a public sector's organization's ability to develop and strengthen stakeholder relationships, as well as to support the success and effectiveness of the three central components (the "windows") of the "House of Governance" framework: *internal compliance and accountability, planning and performance monitoring,* and *external compliance and accountability.*

Good practice for good governance in a public sector organization

The governing body of an organization should consider the following for good practice in stakeholder relationships:

- Begin by clearly defining and understanding all internal and external stakeholder relationships.
  - Achieving this step involves documenting each of the organization's stakeholders and their relationship with the organization.

[14] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 13, 2004.

The BC Public Service has adopted six corporate values that describe the qualities valued in colleagues and in organizations. The six core values are:

- Teamwork
- Passion
- Curiosity
- Courage
- Accountability
- Service

Integrity has been placed above all the other values as an overarching quality that strongly affirms the Standards of Conduct for the British Columbia Public Service and provides an environment in which to make the right decision for the right reasons.

  - Internal stakeholders may include (but are not limited to) all internal staff, divisions, departments and units.
  - External stakeholders may include (but are not limited to) the people of British Columbia, the Legislative Assembly, central agencies, resource and service providers such as other government organizations, media and other interest groups.
- The documented understanding should be communicated to all internal stakeholders so that they are aware of how their work impacts organizational stakeholder relationships.

- Take an active and planned approach to developing and strengthening the stakeholder relationships it has defined.
  - The organization should actively communicate with internal and external stakeholders, inviting feedback (even complaints).
  - Mechanisms and processes for dealing with feedback received should be put into place to support stakeholder communication.
- Put appropriate structures and processes in place to measure and review the quality and effectiveness of service or product delivery to stakeholders (both internal and external).
  - Measures may be in financial and non-financial terms.
- Establish clear channels of communication with the organization's stakeholders on the organization's mission, roles, objectives and performance.
  - Ensure that such channels operate effectively in practice.[15]
- Establish effective communication with stakeholders.
  - Establish and publish formal pre-determined standards and measures of performance, and report actual performance against them in public documents.
  - Inform stakeholders of their rights to information and services and how to seek redress should they need it.
  - Inform stakeholders of contracting and partnership agreements and how to become involved.

[15] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 28, August 2001.

  - Develop and publish formal procedures for both internal and external enquiries and complaints, and ensure that enquiries and complaints are dealt with promptly and effectively.
  - As relevant, establish mechanisms to investigate external complaints, where routine complaints procedures have failed to deal with them to the satisfaction of the complainant.
  - Set in place clear procedures for employees to voice concerns or complaints.[16]
- Recognize that information in general is to be shared among key players, politicians, public servants and other stakeholders. Information is not owned by any particular organization. However, the confidentiality of personal information and commercial confidences must be respected at all times.[17]
- Ensure that communication to stakeholders is balanced, understandable, transparent and timely.[18]
- Promote accountability to stakeholders by publicizing the identity of the members of the governing body, together with information about how and why they came to be appointed.[19]
- Establish clearly documented and clear management processes for:
  - policy development, implementation and review;
  - decision-making, monitoring, control and reporting; and
  - development of formal procedures concerning the conduct of the governing body's operations, including recording of decisions.[20]

[16] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 29, August 2001.

[17] ibid p. 29.

[18] ibid p. 30.

[19] ibid p. 30.

[20] ibid p. 33.

Risk management

Risk management is the process of identifying, analyzing, addressing (or accepting), monitoring, and communicating risks that could prevent the organization from achieving its objectives. The process begins at the planning stage and continues to the reporting stage through publicly communicating to users the effectiveness of the risk management process. The cycle is completed when risk information is used at the start of the next planning stage. Risk management provides an organization not only with controls to address risks, but also—through a strong understanding of strategic, operational and financial risks—with operational flexibility.

Like all other "House of Governance" elements, ultimate responsibility for risk management lies with the governing body. In this case, however, the governing body generally plays an even more active role.

Good practice for good governance in a public sector organization

The governing body of an organization should consider the following good practices in their risk management process:

- Base the system on a clear understanding of the organization's objectives.
- Identify and assess the key strategic, operational and financial risks associated with the organization's objectives, decide on appropriate responses (e.g., implementing internal controls), and then provide assurance that the chosen responses are effective.[21]
  - — Risk assessment is an ongoing process.
  - — Both internal and external risk factors must be considered. This applies to the full range of an organization's activities and responsibilities.
  - — The focus is on managing risks, not just avoiding risks altogether.
- Monitor the risks it faces and evaluate the responses it implements.

[21] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 15, August 2001.

- Publicly report on the effectiveness of its risk management system, referring explicitly to the governing body that holds responsibility for the system.
- Ensure that the risk management system considers the full range of the organization's activities and responsibilities, and continuously check that various good management disciplines are in place.
  - — Strategies and policies are well documented and regularly reviewed.
  - — Information used is timely, relevant, accurate and reliable.
  - — Financial statements and other information published by the organization are accurate and reliable.
  - — Financial resources are managed efficiently and effectively and are safeguarded.
  - — Human and other resources are appropriately managed and safeguarded.
  - — Key strategic operation and financial risks are identified.
  - — The possible effects of risks on the organization are considered.
  - — A framework of assurance from different sources is in place to show that risk management processes are working effectively.[22]

Internal compliance and accountability

Internal compliance and accountability (one of the central "windows" of the "House of Governance") also flows from the work done under the *stakeholder relationships (internal and external)* element of the house in terms of the recommendation to clearly define and understand the various responsibilities, accountabilities and needs of internal stakeholders. Though this element focuses on internal structures and processes, an efficient and well-governed organization will ensure that internal accountability structures and processes are closely aligned with external accountabilities to reduce duplication of work.

[22] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 16, August 2001.

Good practice for good governance in a public sector organization

The governing body of an organization should consider these good practices for internal compliance and accountability:

- Clearly define and communicate staff's roles, responsibilities and accountabilities and how all of those relate to the others in the organization.[23]
  - This flows from the work done in the *stakeholder relationships (internal and external).*
  - "Staff" refers not only to operational employees but also to management, executive, the governing body and committees.
  - Achieving this step helps staff perform better in their own roles because they understand how they fit into the organization's overall objectives and how their colleagues fit in.
- Create a strong internal control environment with processes and measures that are aligned with the external accountability framework.[24]
  - Internal controls are put in place with the objective of guiding the organization towards its objectives (both internal and external) in an efficient and effective manner.
  - Internal audit is a key component of a strong internal control environment, unless the costs of doing such work outweigh the potential benefits.[25] The work of internal audit can be coordinated with the external auditor to create efficiencies.
  - Another key component to a strong internal control environment is an audit committee. An audit committee provides oversight for the external audit process, but also—more importantly to this element—is responsible for reviewing the internal control framework.

[23] Australian National Audit Office, 'Public Sector Governance – Volume 1', p. 23, 2003.

[24] ibid p. 23.

[25] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 42, August 2001.

- In addition to reporting or discussing actions already completed, engage stakeholder input to help plan and carry out new activities.[26]
- Require staff to be accountable to the governing body, but remember that the governing body also has responsibilities to staff.
  - Recruiting, motivating and keeping staff are vital issues if public sector organizations are to be effective and efficient.
  - An organization's governing body should create a culture that welcomes ideas and suggestions, responds to staff views and explains decisions.[27]
- Implement a clear policy on when and how it will consult and involve staff and their representatives in decision-making.[28]

Planning and performance monitoring

Planning and performance monitoring supports the effective and efficient performance of the organization in meeting its external and internal accountabilities. Governing bodies that review and respond to planning and performance monitoring elements are seen as more effective and relevant.[29]

Good practice for good governance in a public sector organization

The governing body of an organization should consider these good practices for their planning and performance monitoring process:

- Plan and budget.
  - The governing body should make sure that there is a clear statement of the organization's purpose and that it uses this as a basis for its planning.[30]

---

[26] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 23, 2004.

[27] ibid p. 24.

[28] ibid p. 25.

[29] Australian National Audit Office, 'Public Sector Governance – Volume 1', p. 24, 2003.

[30] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 7, 2004.

- Planning and budgeting lay out where the organization is going and how it is going to get there. These activities use the understanding gained from the other elements of the framework, ensuring that risk management and external and internal accountabilities are incorporated appropriately.
- Plans should encompass the entire organization and work through to individual staff member performance and agreements (provided that value-for-money is achieved).
- The Budget Transparency and Accountability Act currently sets out requirements for public sector organization service plans in this regard.

■ Monitor.

- The governing body is responsible for ensuring appropriate structures and processes are in place to monitor financial and non-financial performance against the organization's plan.
- Monitoring performance supports the effective and efficient use of an organization's resources and enables early identification of the organization going off course from its objectives.
- The governing body is more likely to be seen as an effective and relevant part of the organization if it reviews and responds to changes in the organization's environment in a timely way.[31]

■ Report.

- Annual reporting on financial and non-financial performance measures is one of the key means of communicating with external stakeholders.
- Establishing and reporting relevant performance measures demonstrate that all resources have been procured economically and are being used efficiently and effectively.[32]
- Without information about what is being delivered (outputs), at what cost (inputs) and to achieve

[31] Australian National Audit Office, 'Public Sector Governance – Volume 1', p. 24, 2003.

[32] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 53, 2001.

what (outcomes), it is impossible for a public sector organization to make efficient resource allocations.[33]

- — The quality and timeliness of organizational reporting serves as an example of how well it is being governed.
- — Financial measures must be in accordance with appropriate accounting standards to ensure comparability.

- Develop suitable and practical performance measures for use as management and accountability tools. Public sector organizations are held accountable not only for the money entrusted to them, but also for the results achieved. Performance measures are needed by both internal and external users.
  - — Internal users need information on the organization's effectiveness to make efficiency and quality improvements.[34]
  - — External users need information to assess whether the organization has achieved its objectives effectively and used available resources efficiently and economically.[35]
- Decide how it will measure the quality of service for its users and make sure it has the information necessary to review service quality effectively and regularly.[36]

External compliance and accountability

External scrutiny is an integral part of public sector work. Meeting external accountabilities is one of the measures of success for public sector organizations. *External compliance and accountability* flows from the work done under the *stakeholder relationships (internal and external)* element of the governance framework. Under that element, it is recommended that the various responsibilities, accountabilities, and needs of external stakeholders be clearly defined and understood. Doing that puts the organization in a strong position to comply with its external accountabilities.

---

[33] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 53, August 2001.

[34] ibid p. 53.

[35] ibid p. 53.

[36] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 8, 2004.

An externally compliant organization addresses many of the five key principles underpinning good governance as the organization will be accountable and transparent by virtue of addressing the expectations of its external stakeholders.

Good practice for good governance in a public sector organization

The governing body of an organization should consider the following good practices for their external compliance and accountability processes:

- Develop a clear understanding of external stakeholder institutions and the organization's responsibilities and means of accounting to them.
  - This flows from the work done in the *stakeholder relationships (internal and external)* element.
  - Some external means of accounting include (but are not limited to):
    - annually reporting to the Legislature;
    - submitting budget for approval for funding;
    - opening accounts for examination by an external auditor; and
    - holding ongoing communications with stakeholders.
- Put strong and robust organizational structures and processes in place to comply with and meet external accountabilities.
- Publish, on a timely basis, an annual report (including financial statements) that presents an objective, balanced and understandable account and assessment of the organization's activities, achievements, financial position and performance prospects.[37]
- Publish a statement on whether or not they have adopted standards or codes of governance. This statement should identify the standards or codes adopted, whether compliance has been achieved with them and, if not, in what respect there has not been compliance and why.[38]

[37] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 51, 2001.

[38] ibid p. 52.

- Encourage and maintain the interest and confidence of the public and service users through relationship- and dialogue-building.[39]
- Make it clear that the organization as a whole seeks and welcomes feedback, and ensure that it responds quickly and responsibly to comments. Complaints are a vital and necessary part of feedback, and there should be clear leadership within the governing body on handling and resolving them—and of ensuring that the lessons learned are used to improve.[40]
- Ensure that the organization has a clear policy on the types of issues on which it will consult or engage the public and service users. This policy should clearly explain how the organization will use the input received in decision-making and how it will report back on these decisions.[41]
- Take the lead in forming and maintaining relationships with the leaders of other organizations, as a foundation for effective working relationships at operational levels.[42]

Organizational success at this step is supported by two further "House of Governance" elements: *planning and performance monitoring* and *information and decision support*.

Information and decision support

This element of the "House of Governance" framework highlights the importance of information management in supporting the organization and its staff in meeting its objectives and accountabilities in an efficient and effective way. The design and management of *information and decision support* is ultimately the responsibility of the governing body.

[39] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 24, 2004.

[40] ibid p. 24.

[41] ibid p. 24.

[42] ibid p. 25.

Good practice for good governance in a public sector organization

"Ethics is embedded in culture. Those at a governance level can ensure an ethical culture by modelling desired behaviours, discussing difficult ethical issues, and ensuring consistency between any rules and actual behaviours."

Australian Public Service Commission, *Building Better Governance*, (2007, p. 7).

The governing body should consider these good practices for their information and decisions support systems:

- Ensure that its governors do not concern themselves with levels of detail that are inappropriate for their role, while ensuring that the governors are not too removed to provide effective oversight and scrutiny.[43]
- Design information and decision support structures that reflect both external and internal accountabilities as well as major organizational decisions.
  - The design of this support structure needs to consider both how to obtain information and how to get that information to the appropriate personnel to support decisions.
  - Technology supports this process. For example, an organization's intranet provides internal information support, while an organization's Internet website provides external information support.
- Ensure the organization develops strong and robust record-keeping/file management systems.
  - Strong record-keeping/file management systems enable access to and delivery of information in a timely manner.
  - The rapidly changing technological environment continues to provide products to support this element.
  - System design must consider organizational objectives and external/internal accountabilities.
- State clear objectives for its decisions. In its public record of decisions, the governing body should be explicit about the criteria, rationale and considerations and, in due course, about the impact and consequences of decisions.[44]
- Ensure that it is provided with information that is fit for its purpose. The information should be tailored to the functions of the governing body and not to detailed operational or

[43] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 15, 2004.

[44] ibid p. 15.

management issues, with which the governing body should not, in general, be concerned.[45]

— Key information should contain a robust analysis and not be obscured by too much detail.[46]

- Ensure that information is directly relevant to the decisions it has to make; is timely and objective; and gives clear explanations of technical issues and their implications.[47]
- Ensure that professional advice on legal and financial matters is available and used appropriately in its own decision-making and elsewhere throughout the organization when decisions that have significant legal or financial implications are taken.[48]
- Not be reluctant to use the organization's resources to provide the information and advice that is needed for good governance. However, it should not make unreasonable demands on the organization by asking for information that is not necessary or appropriate for the governing body's role.[49]

Review and evaluation of governance arrangements

The final element of the "House of Governance" framework ensures the growth and development of governance structures and processes. Ongoing review, evaluation and adjustments of governance arrangements are a key process and responsibility of the organization's governing body. At the same time, the governing body should also review its own structures, processes and overall performance as part of a continuous improvement approach.

[45] The Independent Commission on Good Governance in Public Services, 'The Good Governance Standard for Public Services', p. 16, 2004.

[46] ibid p. 16.

[47] ibid p. 16.

[48] ibid p. 16.

[49] ibid p. 16.

Good practice for good governance in a public sector organization

The governing body of an organization should consider the following when reviewing and evaluating their governance arrangements:

- Conduct reviews and evaluations on an ongoing basis, led internally. However, an external review should be completed at intervals to give the organization the benefit of outside objectivity and expertise.
- Review controls as part of a continuous improvement process.[50]
- Ensure that effective systems of risk management are established. It is vital that risks be monitored and evaluated constantly and that programs and procedures be in place to address these risks.[51]

Cross-government guidance

Many of government's programs and services cross government or jurisdictional boundaries and there is an increasing expectation that all will be delivered in a seamless way. In many cases, however, the accountability relationships between these separate bodies are unclear. The governance implications of "cross-ministry" approaches centre on the need to know:

- who is responsible for what;
- whether there is a common goal or whether agencies have discrete responsibilities; and
- which agency provides leadership.[52]

The principles and ideas discussed through this document apply to cross-government initiatives. Public sector bodies should negotiate and agree on the terms of the collaboration and then document the roles, responsibilities and contributions of the parties involved to reduce the risk of misunderstandings. Structures and processes must be matched to the task—no one size fits all.[53]

---

[50] The International Federation of Accountants, 'Governance in the Public Sector: A Governing Body Perspective', p. 41, 2001.

[51] ibid p. 41.

[52] Australian Public Service Commission, 'Building Better Governance', p. 13, 2007.

[53] ibid p. 14.

Some areas to be documented when more formal processes are considered include:

- the objectives of the arrangements, including desired outcomes and timeframes;
- the roles and responsibilities of the parties, including their capacity to contribute, and positions on governing boards or committees;
- the details of the activity, including specifications of services or projects to be undertaken;
- resources to be applied by the parties and related budgetary issues;
- the approach to identifying and sharing the risks and opportunities involved;
- agreed modes of review and evaluations; and
- agreed dispute resolution arrangements.[54]

[54] Australian National Audit Office, 'Cross-Agency Governance', p. 3, 2003.

Appendix A: Legislative Environment in British Columbia

Elements affecting governance in British Columbia:

Legislative Assembly

The Legislative Assembly, as the body of elected representatives of the people, has three main roles:

1. To pass laws;
2. To approve spending of public money; and
3. To scrutinize Government activity.

Approval of legislation and the budget in the Legislature provides the basis for action by public servants. While Cabinet Ministers give public servants direction, tradition requires that a distinct separation be maintained between the policy-making function of Cabinet and the advisory and administrative function of public servants.

Government is formed from the elected representatives of the British Columbia people. Their decisions and priorities are formally accepted as defining the public interest.

Government/Cabinet

The provincial government fulfils its responsibilities through several bodies. The primary responsibility for decision-making rests with Cabinet, the highest executive of the government as a whole. Cabinet is assisted by a system of Cabinet committees and government caucus committees.

Cabinet Ministers

Members from the governing party, as selected by the Premier, make up Cabinet. Each Minister is responsible for a portfolio or "ministry" and participates in making government policy decisions. Ministers are responsible for administering a specific set of laws and programs and are accountable to the Legislature for all actions they take.

Appendix A

Cabinet committees provide advice and make recommendations to Cabinet in the following broad policy areas: financial management, government priorities, legislative proposals and economic and environmental issues.

The Minister of Finance is responsible for government's financial and budgetary matters and is the chair of the Treasury Board.

Treasury Board is the Cabinet committee with a general advisory role to Cabinet on financial issues and a decision-making role relating to the government's budget, investments and general financial and accounting policies and practices. Many policy decisions requiring an allocation of resources, or inducing a financial risk must pass Treasury Board approval.

Deputy Ministers

Deputy Ministers are appointed by Cabinet through an Order-in-Council and are responsible for the day-to-day operation of government. Their role is to implement policy adopted by the Cabinet:

Financial Administration Act

The Financial Administration Act is the major authority for financial matters in the province. It establishes the central framework for financial administration through the following:

- Part 2: Organization: This defines the appropriate division of central financial responsibilities between Treasury Board and the Minister of Finance. The Comptroller General is established as the officer in the Ministry of Finance responsible for accounting and control systems, maintenance of central accounts and preparation of financial statements, under the policy direction of the Treasury Board.
- Part 4: Expenditure: This reaffirms the traditional constitutional principle that all expenditures of public money must have the approval of the Legislative Assembly, either through the Estimates and a Supply Act or through another statutory provision. Treasury Board is given the responsibility for regulating the control of expenditures.

Appendix A

A Supply Act is a statute passed each fiscal year appropriating funds for estimated expenditures on financing transactions in the year. It can be amended by a supplementary supply Act passed later. The Supply Act process identifies the purposes for which funds can be expended and the maximum amounts that may be spent for each purpose during the fiscal year, as outlined in the votes for each ministry in the Estimates.

Budget Transparency and Accountability Act

The Budget Transparency and Accountability Act was enacted to improve accountability through the use of ministry and agency service plans, complemented by annual service plan reports.

The Budget Transparency and Accountability Act is the major companion piece to the Financial Administration Act, adding another layer of requirements to the budget-making and reporting process in British Columbia.

- The public and Members of the Legislative Assembly now participate in the process of building the annual budget through an all-party committee that conducts pre-budget consultations across British Columbia.
- Complete disclosure of all budget assumptions and forecasts must be contained in the budget and the completeness of this disclosure must be certified by a senior public servant.
- All accounting policies and practices must conform to Generally Accepted Accounting Principles.
- Crown corporations' financial results are included in the government's bottom line and reflected in government planning, budgeting and reporting processes.

Balanced Budget and Ministerial Accountability Act

The Balanced Budget and Ministerial Accountability Act reduces the likelihood of a government running a budget deficit. It legislates:

- a reduction in the maximum allowable deficit each year until no annual deficit is permitted in any year following the 2000/2001 fiscal year;
- a salary penalty be applied to all members of the Executive Council for failing to meet those requirements; and

- exceptions to the above requirements: where significant revenue declines occur; and should emergency or unexpected circumstances detrimental to the health or safety of British Columbians occur.

Financial Information Act

The Financial Information Act is the statute requiring certain Crown corporations and other public bodies—those that are controlled by the government or that may receive grants or advances or have their borrowings guaranteed by the government—to publish annual financial statements and other financial information.

Auditor General Act

The Office of the Auditor General is the independent auditor of government. The Auditor General reports directly to the Legislative Assembly, supporting its scrutiny function.

The Auditor General Act is the statute empowering the Auditor General to audit the various ministries of the government and to report annually to the Legislative Assembly on the financial statements of the Government Reporting Entity. In addition, the Auditor General may report on: compliance with legislation; whether government and government organizations are operating economically, efficiently and effectively; whether procedures to measure and report on program effectiveness are adequate and complied with; and whether accountability information with respect to program results is adequate.

Appendix B: Bibliography

Canadian References

- Board Resourcing and Development Office of British Columbia. 2005. Best Practice Guidelines. Victoria, B.C., Canada. Available at: <http://www.lcs.gov.bc.ca/brdo/governance/corporateguidelines.pdf>.
- British Columbia Investment Management Corporation. 2007. Corporate Governance Principles and Proxy Voting Guidelines. Victoria, B.C., Canada.
- Canadian Council of Legislative Auditors. 2007. Department Governance. Ottawa, Canada.
- Saner, M. and J. Wilson. 2003. Stewardship, Good Governance and Ethics. Institute on Governance. Ottawa, Canada. Available at: <http://www.iog.ca/publications/policybrief19.pdf>.
- Treasury Board of Canada Secretariat. 2005. Review of the Governance Framework for Canada's Crown Corporations. Ottawa, Canada. Available at: <http://www.tbs-sct.gc.ca/report/rev-exa/gfcc-cgse-eng.pdf>.
- Watson, E. 2004. Public-sector corporate governance: British Columbia's best-practices reforms. In *Ivey Business Journal*. London, Ontario, Canada. Available at: <http://www.lcs.gov.bc.ca/BRDO/news/Ivey_March2004.pdf>.

International References

- Australian National Audit Office. 2003. Public Sector Governance. Canberra, Australian Capital Territory, Australia. Available at: <http://www.anao.gov.au/director/publications/betterpracguides.cfm>.
- Australian Public Service Commission. 2007. Building Better Governance. Canberra, Australian Capital Territory, Australia. Available at: <http://www.apsc.gov.au/publications07/bettergovernance.pdf>.

Appendix B

- Australian Public Service Commission. 2005. Foundations of Governance in the Australian Public Service. Canberra, Australian Capital Territory, Australia. Available at: <http://www.apsc.gov.au/foundations/foundations.pdf>.
- Independent Commission on Good Governance (UK). 2004. Good Governance Standard for Public Services. London, England. Available at: <http://www.cipfa.org.uk/pt/download/governance_standard.pdf>.
- Institute of Internal Auditors. 2006. The Role of Auditing in Public Sector Governance. Florida, U.S.A. Available at: <http://www.theiia.org/download.cfm?file=3512>.
- International Federation of Accountants. 2001. Governance in the Public Sector. New York, U.S.A. Available at: <http://www.ifac.org/Members/DownLoads/Study_13_Governance.pdf>.
- Organization for Economic Co-operation and Development. 2004. OECD Principles of Corporate Governance. Paris, France. Available at: <http://www.oecd.org/DATAOECD/32/18/31557724.pdf>.
- Parliament of Victoria, Public Accounts and Estimates Committee. 2005. Report on the Inquiry into Corporate Governance in the Victorian Public Sector. Melbourne, Victoria, Australia. Available at: <http://www.parliament.vic.gov.au/paec/inquiries/publicgovernance/PAEC-Report-63_CorporateGovernancePublicSector_2005-05-17.pdf>.
- United Nations (Conference on Trade and Development). 2006. Guidance on Good Practices in Corporate Governance Disclosure. New York, U.S.A. Available at: <http://www.unctad.org/en/docs/iteteb20063_en.pdf>.

Government agrees that good governance is essential to the success of organizations, regardless of whether they are in the public, private or not-for-profit sectors. The structures and decision-making processes that Government has in place, as well as the core values of integrity, fiscal responsibility and accountability, emphasize the reliance placed on good governance practices to achieve our objectives.

Government thanks the Office of the Auditor General for its report "Public Sector Governance – A Guide to the Principles of Good Practice" and acknowledges the report's contribution to the literature on public sector governance. The report complements existing Government documents, including the Board Resourcing and Development Office's "Best Practice Guidelines", the Crown Agencies Secretariat's "Good Practices Checklists" series, and Government's "Core Policy and Procedures Manual", in providing advice and guidance to BC public sector organizations.

How are We Doing?

The Public Reporting of Performance Measures in British Columbia

The annual report is a critical tool used by public sector organizations to describe and explain their performance to their stakeholders. It is the main way for the reporting organization to publicly discuss its results and thereby hold itself accountable to the public for its performance. Report readers use this information to assess whether the organization is meeting stakeholder expectations and to evaluate how effective the organization's management is. In this way, the annual report is essential for ensuring that public sector organizations are functioning well, achieving their public mandate and are fully accountable for their results.

An effective annual report communicates to the reader on a variety of levels. It describes the organization's vision, mission and values, the public purpose it serves, the goals it has set for itself and the strategies it has used to achieve those goals. The annual report defines the performance measures the organization uses to evaluate whether it achieved these goals, along with the targets it set for these measures. A well-crafted annual report provides a comprehensive picture of organization performance and gives the reader a "clear line of sight" between the organization's vision, mission and values, and the performance measures and targets the organization set for itself.

This report focuses on a very narrow aspect of the performance information contained in the annual report—the individual performance measures. This is an important area because the quality of performance measures in an annual report is a key determinant of the effectiveness of that report. As well, a significant portion of every annual report is focused on describing these performance measures and reporting and explaining the results achieved.

This report represents our first comprehensive survey of performance measure reporting across government at a particular point in time. In conducting this survey, we evaluated a broad sample of performance measures being reported by government organizations in the province against a specific set of criteria. In developing these criteria we attempted to calibrate some aspects of the quality of performance measures being reported. Readers should be aware that we did not attempt to assess whether there were other measures the organization should have reported on, nor whether the measures reported were consistent with the organization's vision, mission or values. We anticipate examining some of these other important aspects of performance reporting in the future.

Executive Summary

Our results provide insight into the nature and scope of the performance information being reported by British Columbia's public sector, and our recommendations provide guidance in improving reporting practice.

What we did

We chose a random, representative sample of performance measures from the annual reports of organizations within the Government Reporting Entity (GRE). The GRE is made up of all the organizations controlled by government—approximately 170—and reported on in the Province's financial statements. Our survey included 71 GRE organizations plus WorkSafeBC, for a total of 72. Although WorkSafeBC is not controlled by government and is not part of the GRE, we included it in our survey because it is a large organization working in the public interest.

We examined 1,404 performance measures, from these 72 organizations, in detail. Our survey was designed to be large enough to identify significant trends or factors affecting the current state of performance reporting in the province.

In developing our survey, we referred to the British Columbia Reporting Principles. These were adopted by the Legislative Assembly Standing Committee on Public Accounts in 2003 and form the framework for public performance reporting for much of the provincial public sector.

What we found

Our examination provided an encouraging picture of the maturity of performance reporting in British Columbia. Of note, we found:

- up-to-date performance measure results available on organizations' websites;
- extensive use of stakeholder surveys;
- common use of benchmark measures; and
- performance measures that consistently meet the "SMART" criteria for good performance measures—that is, they are Specific, Measurable, Attainable, Reliable and Time-bound.

At the same time, we also identified some significant opportunities for improvement in public sector performance reporting:

- Many organizations within government are reporting on an excessive number of performance measures in their annual reports.
- Most organizations within the GRE are not reporting on the efficiency, accuracy or timeliness of the services they provide to the public.
- Many school district reports do not include current-year targets for their performance measures.

In our view, the breadth and quality of public sector performance reporting in the province would be greatly improved if these issues were addressed.

We recommend that:

- ***Central agencies provide guidance to organizations encouraging them to:***
  - ***Keep the number of performance measures they disclose in their annual performance reports to a minimum and focused on the few critical results that the intended audience of the report is expected to be concerned about.***
  - ***Increase the number of efficiency measures they disclose in their annual performance report.***
  - ***Report on the accuracy and timeliness of their operations.***
- ***School districts include current-year targets for all performance measures disclosed in their accountability or achievement contract reports.***
- ***The Ministry of Health Services not require health authorities to include all of the performance measures contained in their Government Letter of Expectations (Government Letters) in their annual service plan report. Alternative reporting mechanisms should be developed for those measures in the Government Letters that have been removed from the service plan reports.***
- ***The Ministry of Health Services define specific targets for every performance measure contained in the health authorities' Government Letter. The Government Letters include performance measure targets for each year covered by a health authorities' upcoming three-year service plan.***

Background

The value of performance reporting

The annual public reporting document is typically known as the "annual report". Legislation refers to this document as the "annual service plan report". Different sectors of the government use other terms as well. For example, school districts call the document an "accountability contract report" or "achievement contract report". Post-secondary institutions call it an "institutional accountability plan and report" or "service plan report". Health authorities call this document a "health authority service plan report". While the names given to these documents are different, the performance measure content is largely the same. For ease of presentation we will use the generic term "annual report" unless otherwise noted.

The provincial government provides an extensive range of services to the residents of British Columbia through a variety of governmental and quasi-governmental organizations. The Province directly provides services through its ministries and indirectly through numerous other organizations including post-secondary institutions, Crown service delivery agencies, commercial Crown agencies, health authorities and school districts. The Province relies on these organizations to deliver the services that British Columbians expect and rely on every day to contribute to their overall quality of life.

Every year, these entities prepare a public report that describes the results of their activities for that fiscal year. These documents are typically known as annual reports (see sidebar). Once completed, the draft public report is submitted to the provincial government for review and approval and is then posted on the organization's website.

A comprehensive annual report is a cornerstone of public sector accountability. It allows the public to see where their dollars were spent and what was achieved. Readers can then assess the importance of these achievements to determine whether the reporting organization is focused on the "right" things. Annual reports are also essential in helping readers decide how effective management's stewardship has been and whether the services being provided by the organization are sufficient.

In a well-crafted annual report, the reporting organization fully presents its performance story. Performance measures are a significant part of this discussion because the organization uses these to gauge how successful the organization has been in achieving its goals. When discussing its performance measures, the report describes to the reader what the organization intended to achieve and what it actually did achieve. The report frames its current year performance measure results relative to what was accomplished in the prior year and helps the reader understand the overall context within which that performance occurred. A good report also describes what the organization hopes to achieve in the future. In this way, the report allows the reader to

assess the organization's performance over time in relation to the organization's stated targets.

Performance reporting guidelines

The provincial government, through the Deputy Minister's Policy Secretariat of the Premier's Office and the Crown Agency Secretariat, has developed detailed comprehensive guidelines for organizations preparing their three-year service plans and annual reports. These guidelines are built around the concepts in the Budget Transparency and Accountability Act (BTAA) and BC Reporting Principles. They include a reporting template and describe the minimum acceptable content and scope for public sector performance reports.

The government updates the guidelines annually and distributes them to organizations within the Government Reporting Entity (GRE) well before they start preparing their annual reports. In this way, the guidelines and templates perform a critical function in helping ensure the completeness and consistency of the public sector performance reports being prepared in British Columbia every year. As our reviews of annual reports in previous years have shown, the guidelines have had a positive influence on raising the standard of performance reporting in the province.

The BTAA, when it was passed in 2000, established the requirement that public sector organizations report on their performance, but did not define how they should do this. The BC Reporting Principles, passed in 2003, provided a framework for organizations to follow when compiling their annual reports. Approximately 40% of the organizations within the GRE are required to adhere to the BC Reporting Principles. The BTAA was amended in 2004 to exclude organizations within the SUCH sectors (schools, universities, colleges and hospitals). Separate guidelines are prepared by the Ministry of Health Services, Ministry of Education, and Ministry of Advanced Education and Labour Market Development for use by organizations within this sector.

Performance measures

A successful annual report provides a comprehensive picture of organization performance. It enables external stakeholders to understand what the organization achieved during the reporting period and the context within which that achievement occurred.

To set the stage for this discussion, a well-crafted public sector annual report describes the organization's vision, mission and values, the public purpose it serves, the goals it set for itself and the strategies it used to achieve those goals. The annual report also discloses the performance measures the organization uses to evaluate whether it has achieved its goals and the targets set for these measures. An effective annual report, therefore, gives the reader a "clear line of sight" between the organization's vision, mission and values, and the performance measures and targets the organization has set for itself.

This report focuses on the individual performance measures contained in the examined annual reports. We applied this focus to our examination because the quality of performance measures in an annual report is a key determinant of the effectiveness of that report. As well, a significant portion of every annual report is focused on describing these performance measures and reporting and explaining the results achieved.

BC Reporting Principles

1. Explain the public purpose served
2. Link goals and results
3. Focus on the few, critical aspects of performance
4. Relate results to risks and capacity
5. Link resources, strategies and results
6. Provide comparative information
7. Present credible information fairly interpreted
8. Disclose the basis for making key reporting judgements

Survey purpose and approach

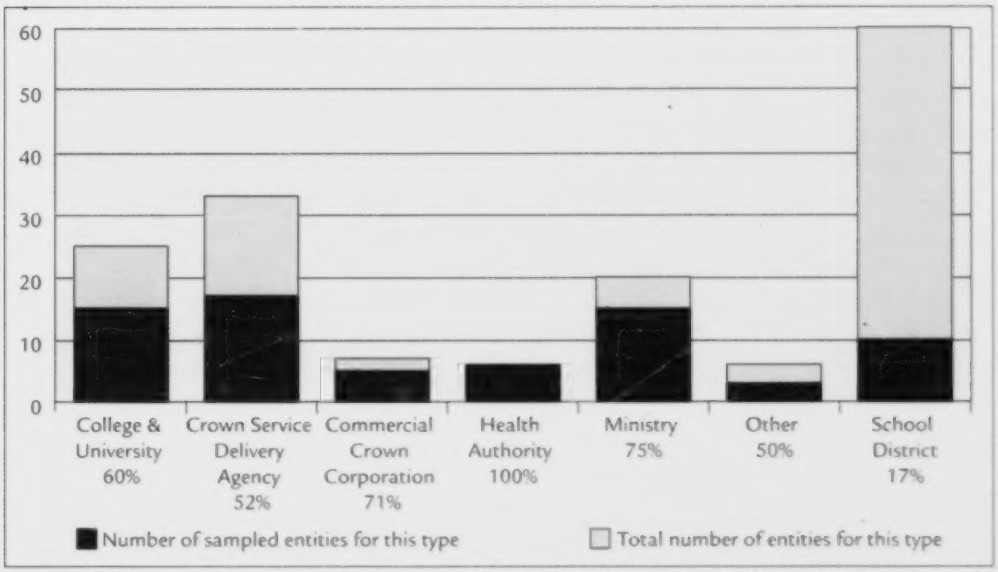
We carried out this survey to gain insight into the overall state of performance measure reporting in British Columbia. This information would, we felt, help guide our future work in this important area as well as enable us to help government organizations maintain best practices for performance measure reporting.

A properly prepared annual report covers a wide range of information about the organization and its performance during the period being reported. This broad scope of information is essential if the reader is to accurately understand and evaluate the reported performance results. The BC Reporting Principles (and the guidance provided by the province to reporting organizations) recognize this and provide direction over the preparation of the entire report. As a result, they form an excellent foundation to define best practices for performance measure reporting. In conducting our examination, we therefore reviewed these principles in detail to identify those elements that relate directly to performance measures. We then supplemented these criteria with other best practice attributes relevant to this examination. For a full listing of the criteria we used to evaluate the examined performance measures, see Appendix A.

We chose a representative sample of organizations from the approximately 170 organizations that make up the GRE. By the end of the survey, we had examined 1,404 individual performance measures being reported by 72 different provincial organizations (Exhibit 1). For a complete listing of all the organizations included in our survey, see Appendix B.

Exhibit 1:

Percent and Number of Organizations, by Type, Included in Survey[a]



[a] Our survey included one hospital. However, for purposes of reporting on averages, we did not include this hospital because the sample size was too small to be defined as an average. The category of "Other" is made up of WorkSafeBC, the Vancouver Convention Centre Expansion Project and the Public Guardian and Trustee. For a full listing of all organizations examined by organization type, see Appendix B.

Source: British Columbia Crown Agency Registry, July 2008, and Office of the Auditor General performance measure survey data results.

We conducted our survey from July to August 2008. We focused our examination on the most current annual reports and service plans available from the sampled organizations' websites or from "draft" reports obtained directly from the ministry charged with monitoring the reporting organization (for those reports not yet approved for public distribution).

Key findings

We found that the performance measures being reported by the various organizations within the GRE met many of the criteria we were looking for. However, there are still many areas where these performance measures can be improved.

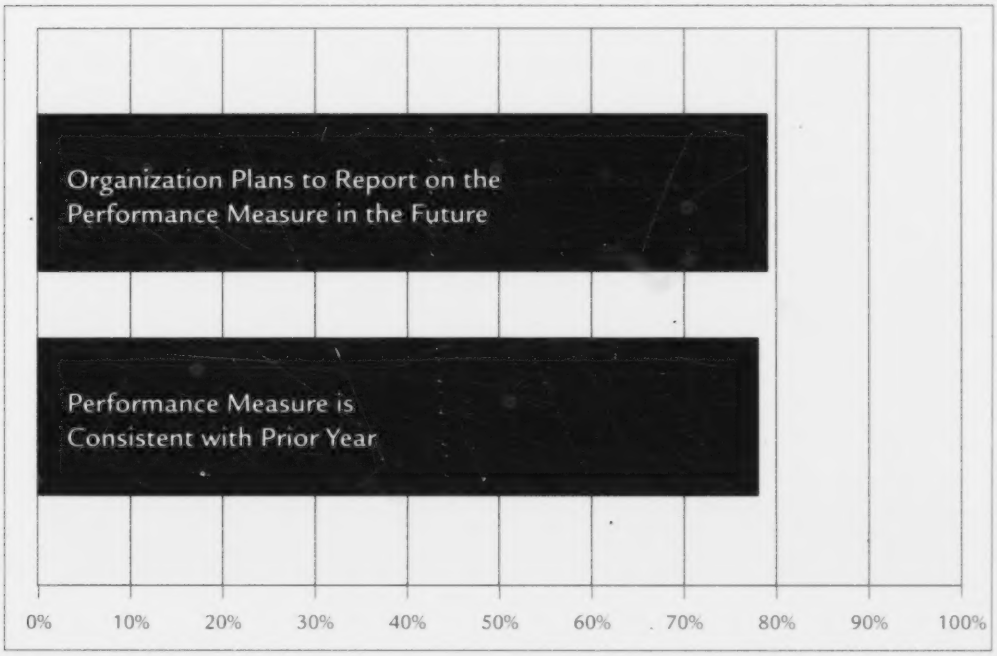
Positive results

We identified several areas where performance measure reporting was done well. Our results reflect many of the strengths of performance measure reporting in the province:

- Almost all (96%) of the organizations we examined were making their current performance measures readily available to the general public through their websites.
- Twenty percent of all the performance measures we examined involved a stakeholder survey. This was especially evident within the college and university sector. We were pleased to find this result because stakeholder surveys have the capacity to be a persuasive indication of the overall outcome of an organization's activities and performance.
- Over a quarter (26%) of all measures we examined were benchmark measures, indicating widespread acceptance of the benefits to using these measures. Benchmark measures form a useful starting point for report readers to compare one organization to another. While these comparisons need to incorporate other factors, they can provide a powerful indication of the effectiveness of organization management.
- Most organizations are keeping their performance measures consistent over time (Exhibit 2). We found that 78% of performance measures were consistent with those in the previous year, and 79% of the organizations planned to report on the same measures in the future.

Exhibit 2:

Consistency of Performance Measure Reporting



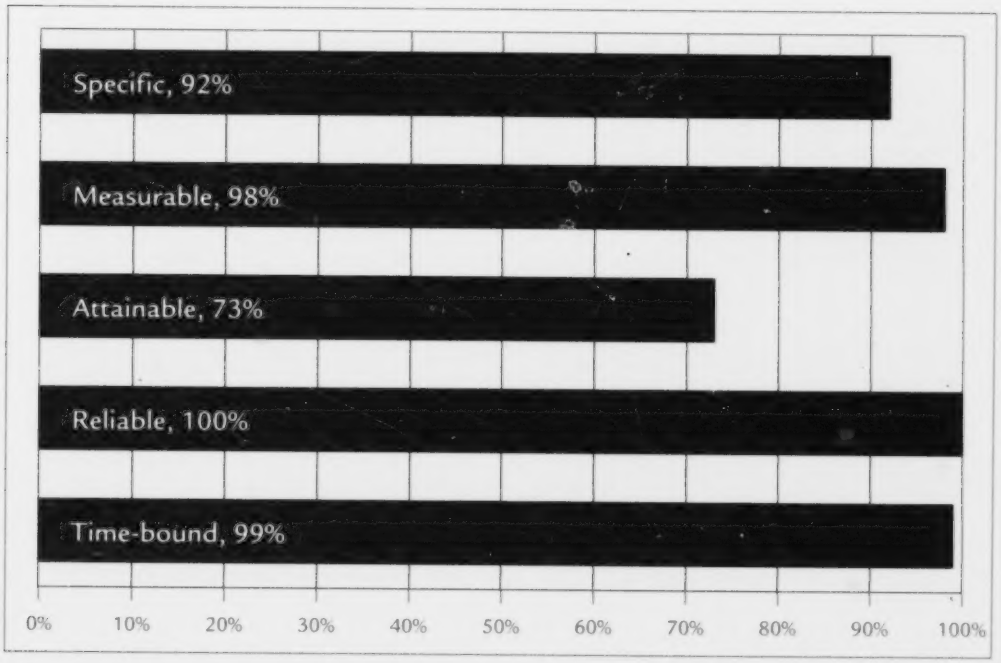
Source: Office of the Auditor General performance measure survey data results.

Consistency in performance measures over time suggests that an organization's management has a clear and consistent vision of what it is doing. Consistency also allows the performance report reader to evaluate the organization's performance over time. Long-term performance trends are powerful indicators of performance trends.

- The measures we examined typically scored very well in terms of meeting the "SMART" criteria: Specific, 92%; Measurable, 98%; Attainable, 73%; Reliable, 100%; and Time-bound, 99% (Exhibit 3). The least positive result (where only 73% of future-year performance measure targets appeared to be attainable) could either be the result of organizations setting "stretch" targets for themselves, or the result of poor performance. Stretch targets are essential if organizational performance is to improve over time.

Exhibit 3:

Percentage Results of SMART Attributes



Source: Office of the Auditor General performance measure survey data results.

Areas for improvement

1. Focus on the few critical results

Importance of focus in an annual report — Annual reports are a key document by which an organization explains its performance and gives stakeholders an opportunity to formally assess whether their needs are being effectively met by the reporting organization.

For a performance report to be effective, it must be focused on the aspects of performance that stakeholders are concerned about. If the report discusses too many items, it can overwhelm the reader with unnecessary information. This can make it harder to identify and evaluate the organization's performance on those key items that

really matter and to assess whether the organization is fulfilling the public purpose it was created to achieve.

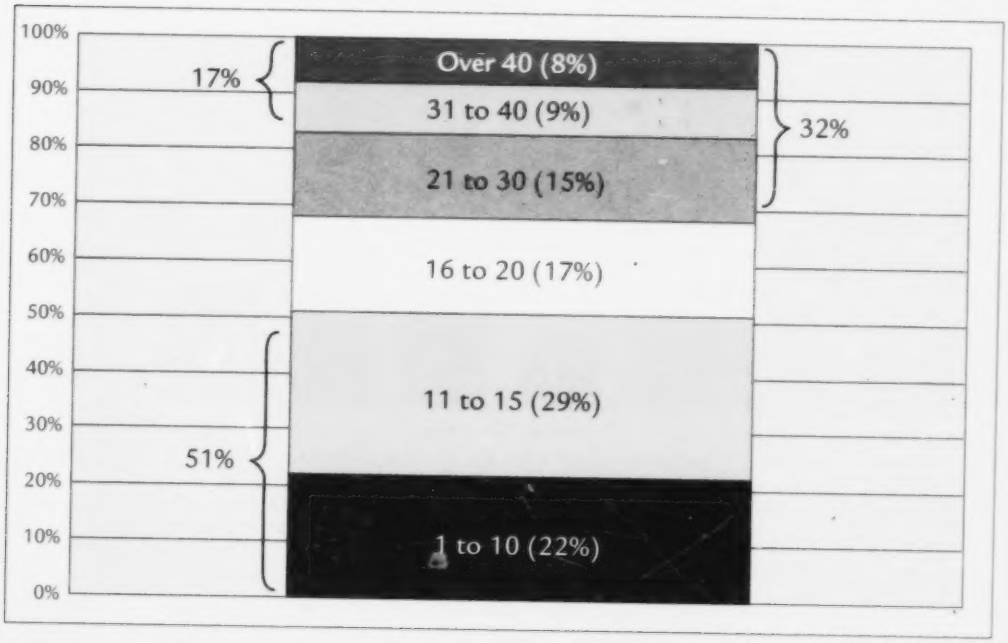
While the BC Reporting Principles do not prescribe the maximum number of performance measures to be reported, they do advise the reporting organization to "focus on the few, critical aspects of performance". Our examination revealed that the sampled organizations were typically reporting on far more performance measures than we believe are necessary if the organizations are to be focusing on their few, critical results only.

Survey results: averages and specifics — Our survey of 72 different organizations, found that the average organization was reporting on 23 performance measures in its annual performance report. The consequence of reporting on this many measures is that it makes it hard for readers to understand what the organization's primary focus is. In fact, an organization reporting on too many areas of focus creates the picture of an organization with no real focus at all.

As high as this average may be on its own, a discussion just on averages may understate the scope of this problem. We found that while 51% of the organizations we examined reported on 15 or fewer measures, 32% had more than 20 measures in their report, 17% had more than 30 measures and 8% had more than 40 measures—and one organization had 205 measures (Exhibit 4).

Exhibit 4:

Number of Performance Measures Being Reported and Percentage of Reporting Organizations

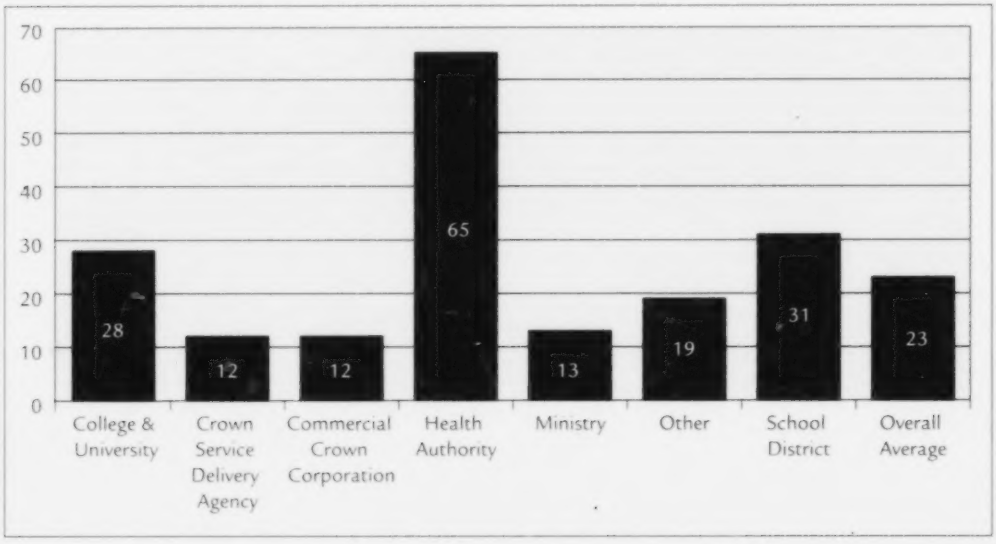


Source: Office of the Auditor General performance measure survey data results.

The problem of organizations not focusing on the few critical results is not common to all government sectors. We found that this issue occurred mainly within the health authorities, post-secondary institutions and school districts (Exhibit 5).

Exhibit 5:

Average Number of Performance Measures by Organization Type and Overall Average



Source: Office of the Auditor General performance measure survey data results.

Possible causes — Our survey was not intended to identify the reasons why an organization would report an excessive number of performance measures. However, one explanation may be that many reporting organizations have not fully identified the external audience of their annual performance report. As a result, they may be including measures that the organization's management uses internally to monitor performance which often have little significance to external users. Another explanation may be that some reporting organizations are required to report on all the performance measures contained in the Government Letter they signed with the Province. For more information on this topic, see the discussion in the "Specific targets for health authorities" section of this report.

Regardless of the cause, the BC Reporting Principles' direction to focus on the few, critical results is not being met.

We recommend that:

- ***Organizations keep the number of performance measures contained in their annual reports to a minimum by focusing on the few critical results of concern to the intended audience of the report.***
- ***Central agencies providing guidance to reporting organizations encourage them to keep the number of measures they disclose in their annual performance reports to a minimum.***
- ***The Ministry of Health Services, through the Government Letters, not require health authorities to include every performance measure from these letters in their annual service plan reports. Alternative reporting mechanisms should be developed for those measures in the Government Letters that are removed from the annual service plan reports.***

2. Efficiency measures

Types of performance measures

1. Input
2. Output
3. Outcome
4. Efficiency
5. Other

Importance of efficiency measures in the annual performance report — When we conducted our survey, we chose to classify performance measures into five basic categories: inputs, outputs, outcomes, efficiency and a catch-all category called "other". Input measures are the least persuasive of performance measures and merely track resources used in an organization's operations. Output measures better reflect performance in that they track the goods or services produced by the reporting organization. Outcome measures are a much more informative performance measure in that they track the overall effect of organization operations, the final result of their activities. It can be difficult to identify and measure outcomes for public sector organizations. Efficiency measures are also highly informative indicators of performance in that they track how much output an organization was able to generate per unit of input consumed.

All organizations should use their resources carefully. It is imperative that public sector organizations operate efficiently, especially in a world where the demand for public sector goods and services continues to increase. Efficient operations are the hallmark of a well-managed organization and speak to an organization's ability to have the maximum beneficial impact on its stakeholders within the limited resources at its disposal. It is therefore essential that public sector organizations report on their

efficiency. This information helps to tell the complete story of the organization's performance. Efficiency measures provide the reader with the necessary context to properly assess an organization's management and to hold them accountable for their stewardship of organization resources and their ability to meet the needs of the community they are serving.

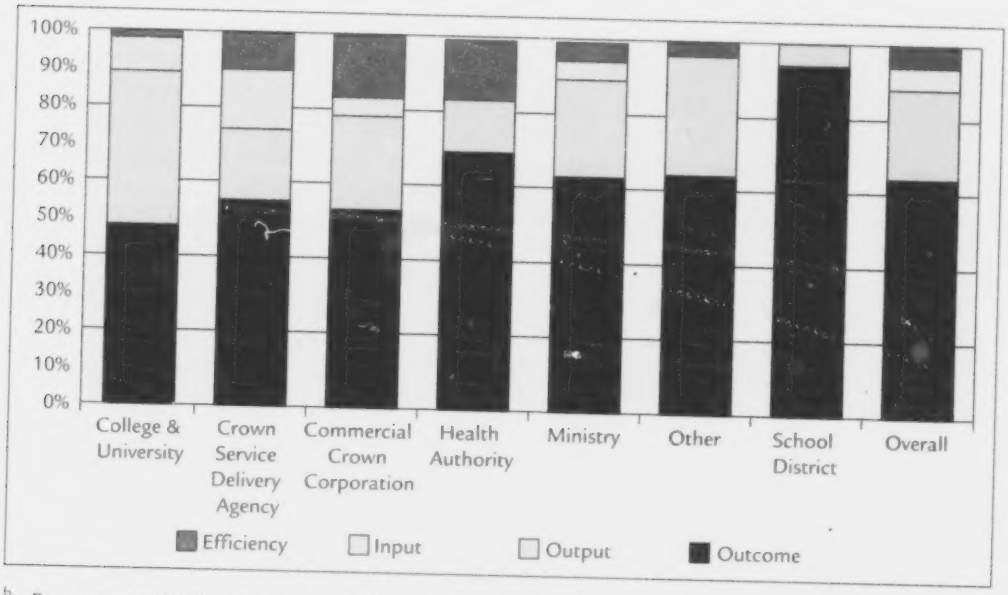
Survey results: averages and specifics — Overall, we found that 64% of the measures we examined were outcome measures. We believe that is a very strong result and reflects a high level of performance reporting maturity already achieved by many of the examined organizations (see Exhibit 6 and Appendix C).

However, our analysis also revealed that only 80 of the examined 1,404 measures were efficiency measures. When we reviewed the information underlying this average in more detail, we found that only 28 of the 72 organizations examined were actually reporting at least one efficiency measure. This means that more than half of all the organizations in our sample did not report a single efficiency measure.

We believe the lack of efficiency measures is a significant deficiency in the nature of performance information currently being reported by public sector organizations within the province.

Exhibit 6:

Breakdown of Performance Measures by Type[b]



[b] Percentage results disclosed in the main body of this report have been rounded to the nearest whole percent. However, for clarity of presentation, the results of this analysis have been shown to the nearest 1/10 of a percent in Appendix C of this report. Similarly, we have excluded "Other" measure types from Exhibit 6 because the results were not significant. Only 6 of the examined 1,404 (0.4%) measures were classified as "Other".

Source: Office of the Auditor General performance measure survey data results.

We recommend that:

- ***Organizations increase the number of efficiency measures they disclose in their annual performance reports.***
- ***Central agencies providing guidance to organizations encourage them to increase the number of efficiency measures they disclose in their annual performance reports.***

3. Accuracy and timeliness measures

Performance measure attributes

1. Accuracy
2. Effectiveness
3. Timeliness
4. Other

Importance of accuracy and timeliness measures in the annual performance report — In our survey, we identified three different performance attributes being tracked by the reported performance measures: accuracy, effectiveness and timeliness. Other attributes we categorized as "Other". Accuracy measures attempt to describe how precise an organization has been in compiling the information it uses or produces. Effectiveness measures focus on quantifying how well an organization is achieving its mandate. Timeliness measures speak to whether an organization is providing goods, services or information to its stakeholders on a timely basis.

We note that not all public sector organizations can be expected to report on the accuracy of their activities. For many public sector organizations, accuracy does not provide meaningful insight into how well management is operating the organization. For example, a health authority would not normally report on the accuracy of the services it provides because stakeholders are typically much more concerned about the effectiveness and timeliness of the services.

Timeliness is a critical aspect of organization performance, because it speaks to whether the organization's stakeholders are receiving the goods or services they need from the organization within a reasonable time period. The quality of life of many public sector agency clients is directly and immediately impacted by the timeliness with which an organization provides its services. An undue delay can lead to significant hardship amongst some stakeholder groups.

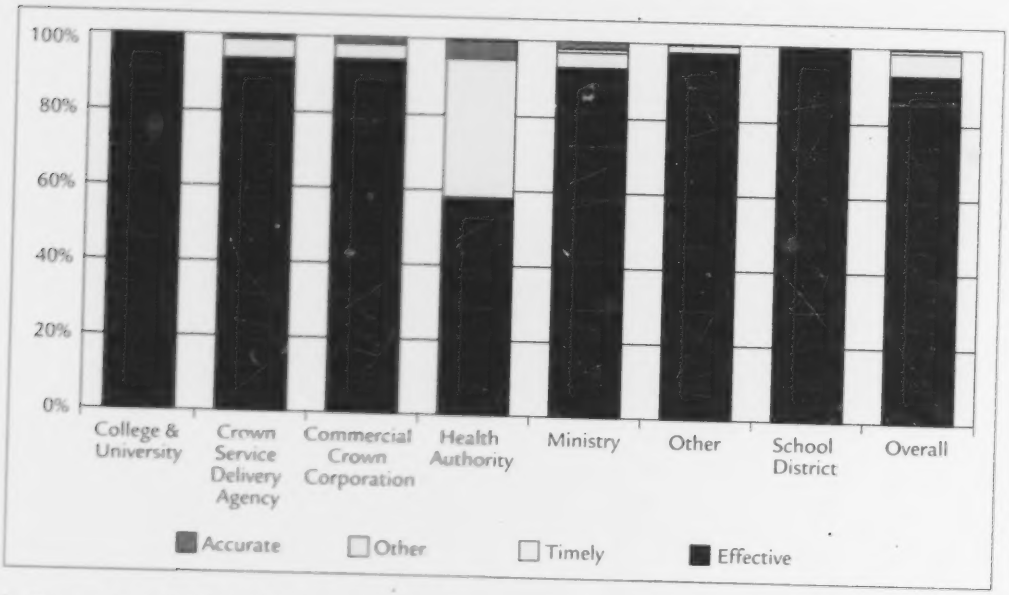
Survey results: averages and specifics — We found that 93% of all performance measures reported focused on the effectiveness of organization operations (Exhibit 7). This is an unbalanced result. While it is good for measures of effectiveness to be reported, at this level it is at the expense of other attributes. Appendix D presents a full list of our results.

In our study, we identified only five accuracy measures out of the 1,404 total measures we examined. Closer examination revealed that just four of the 72 organizations we reviewed were reporting any measure related to the accuracy of the services they provided. There are many other organizations that could, and should, report on the accuracy of their operations.

We noted a similar deficiency in the number of timeliness measures reported. We identified just 88 performance measures from the 1,404 we examined that spoke to the timeliness of services being provided. Closer inspection of the information underlying this result indicated that only 16 of the 72 entities in our study were reporting on the timeliness of their services. This, too, is an area that many more public sector entities could, and should, report on.

Exhibit 7:

Percentage Breakdown of Performance Measures by Performance Attribute[c]



[c] Percentage results disclosed in the main body of this report have been rounded to the nearest whole percent. However, for clarity of presentation, the results of this analysis have been shown to the nearest 1/10 of a percent in Appendix D of this report.

Source: Office of the Auditor General performance measure survey data results.

We recommend that:

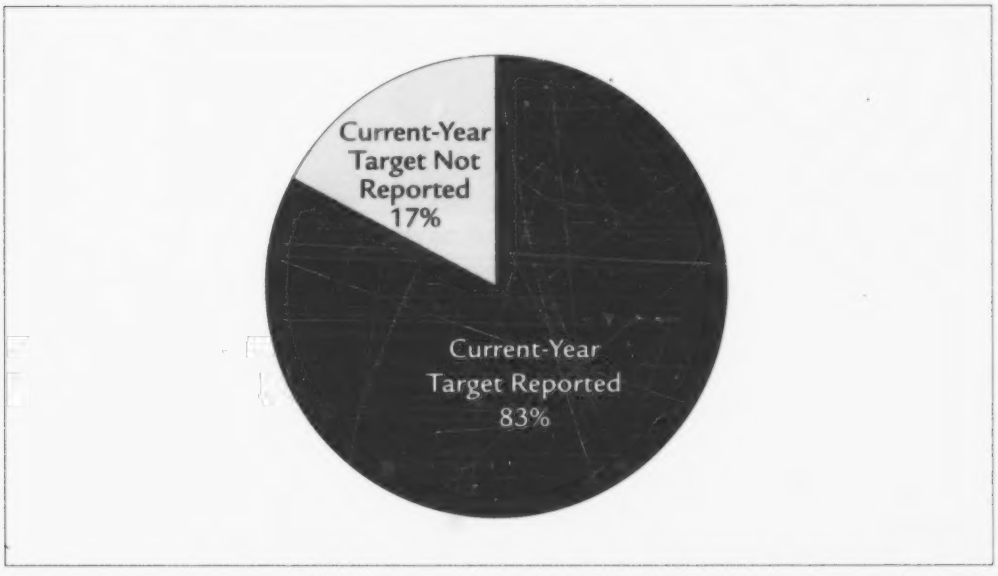
- ***Organizations strive to include accuracy and timeliness measures in their annual reports, whenever possible.***
- ***Central agencies providing guidance to organizations encourage them to report on the accuracy and/or timeliness of their operations.***

4. Current-year targets

Importance of current-year targets for all measures in the annual performance report — A report reader must be able to compare performance results to something else in order to evaluate them. The BC Reporting Principles recognize this and require reporting organizations to provide both the prior-year performance measure results and the current-year target when reporting current-year actual results. This gives readers the ability to understand what performance was possible in the past and what was expected to happen in the current year. It is only within the context of these two comparative results that report users can begin to understand and evaluate current-period actual performance results.

Exhibit 8:

Current-year Targets Provided for Performance Measures[d]



[d] In determining this result, we initially examined 1,404 performance measures. However, this total included the 166 performance measures being reported for the first year by the six health authorities in their new three-year service plan reports. As this was the first year these three-year service plan reports have been required, no current-year targets had been established in a prior year's plan to report against in the current year. We therefore chose to exclude those 166 measures in calculating the above results. (See Appendix J for a complete listing of our results.)

Source: Office of the Auditor General performance measure survey data results.

Survey results: averages and specifics — Our examination revealed that current-year targets were provided for 83% of the performance measures we looked at (Exhibit 8).

The 17% of measures not reporting current-year targets represent a significant deficiency. Without these targets, readers cannot assess current-period performance results relative to what the organization said it would achieve at the start of the year. This is a key piece of information used to hold organization management accountable for the performance results it achieved.

We found this problem primarily within school district accountability and achievement contract reports. Current-year performance measure targets were missing for 47% of the performance measures reported by the examined school districts (removing school district numbers from the survey resulted in current-year performance measure targets reported for 92% of all performance measures in our survey sample).

We recommend that:

- ***School districts include current-year targets for all performance measures disclosed in their accountability and achievement contract reports.***

5. Specific targets for health authorities

Importance of specific targets for all measures in the annual performance report — The Ministry of Health Services requires health authorities to report on all the performance measures contained in their Government Letter. This means that the majority of health authorities in the province are required to report on a minimum of 29 performance measures in their annual report (five of the six health authorities are required to report on the same 29 performance measures, while the sixth authority must report on 19 of these shared measures). This effectively makes each of these measures into a benchmark.

Survey results: specifics — While the health authorities' Government Letter defines a large set of common performance measures to be reported, the wording of the targets for many of these measures is so ambiguous that the value of the measures as benchmarks is greatly reduced. For example, the 2008/09 target for many performance measures in the Government Letter is "Improvement toward long-term target" or "Establish Baseline". Furthermore, the

Government Letter is intended to form the foundation for a three-year service plan, yet the Government Letter includes just two sets of targets, an "08/09 target" and a "Target Long Term". We noted as well that the Government Letter only specified an actual fiscal year for the "Target Long Term" for just over half of the measures contained in the Government Letter. As a result, the Government Letter does not define specific targets for every measure within the three year period the health authorities are now required to plan for.

Ambiguity in the 2008/09 targets will make it difficult to assess performance and will reduce the Ministry of Health Service's ability to hold the health authorities accountable for their performance. Furthermore, lack of specific targets for each year leaves the health authorities with a great deal of discretion over when they will achieve "long-term" performance targets. This inconsistency in target determination also reduces the comparability of long term performance.

We recommend that:

- ***The Ministry of Health Services define specific targets for every performance measure contained in the health authorities' Government Letter. The Letter should also include targets for these measures for every year covered by a health authority's upcoming three-year service plan.***

Appendices

A: Performance Measure Survey Evaluation Criteria

B: Organizations Examined in the Survey, by Type of Organization

Supplemental Schedules Available on Office of the Auditor General Website (www.bcauditor.com)

C: Types of Performance Measures

D: Performance Measure Attributes

E: Degree of Influence

F: Performance Measures Involving Stakeholder Survey

G: Performance Measures Involving Benchmarks

H: Current-Year Performance Measures Consistent with Prior-Year Plan

I: Prior-Year Results Reported

J: Current-Year Target Reported

K: Current-Year Target Met

L: Future-Year Target Included

M: Performance Measure Will Be Reported in the Future

N: Performance Measure Is Specific

O: Performance Measure Is Measurable

P: Future-Year Target Appears Attainable

Q: Performance Measures Examined by Fiscal Year

R: Current Performance Information on Website

Appendix A: Performance Measure Survey Evaluation Criteria

The following table lists the evaluation criteria we used in conducting our analysis. We did not include all these criteria in our final report and appendices. Rather, we tracked many of the criteria for internal purposes only to ensure the validity of our sampling methodology, to help us track individual performance measures within a given annual report. Any criteria not directly referred to in our final report are identified in the "Rationale for Selection of Evaluation Criterion" column in the table.

Evaluation Criterion Used by the Office	Response Options	Rational for Selection of Evaluation Criterion
Criteria used to evaluate and classify the reporting organization		
1. Name of the reporting organization.		■ This information was necessary to identify the specific organization being examined.
2. Type of reporting organization.	■ College/university ■ Commercial crown ■ Crown service delivery agency ■ Health authority ■ Hospital ■ Ministry ■ School district ■ Other (catch-all)	■ This information was obtained to allow analysis of the reporting organizations by organization type (the expectation was that different types of organizations receive different reporting guidance unique to their organization type).
3. Size of reporting organization.	■ Large organization (> $50 million in assets or expenses) ■ Medium organization (> $10 million </= $50 million in assets or expenses) ■ Small organizations (</= $10 million in assets or expenses) ■ Other (outside Government Reporting Entity)	■ Used by Office for internal purposes. Not intended for inclusion in external report. ■ The Office tracked this information to ensure that the survey population included samples from the full range of organizations contained within the Government Reporting Entity.
4. Does the organization have a website?	■ Yes ■ No	■ Used by Office for internal purposes. Not intended for inclusion in external report.
5. Any general comments about the website? Easy to use? Other comments?		■ Used by Office for internal purposes. Not intended for inclusion in external report.

Appendix A

Evaluation Criterion Used by the Office	Response Options	Rational for Selection of Evaluation Criterion
6. Performance measure information is available on organization website?	■ Yes ■ No	■ The Office examined this criterion to assess ease of stakeholder access to the reporting organization's performance reporting information.
7. Type of document used to define performance measures and targets being reported against in the current year.	■ Annual report ■ Three-year service plan ■ Shareholder's letter of agreement ■ Accountability contract/ agreement/letter ■ Achievement contract (growth plan) ■ Growth plan ■ Other	■ Used by Office for internal purposes. Not intended for inclusion in our final report. ■ The Office used this information to identify the key external reporting document the organization uses to communicate its future plans.
8. Type of document being used to report on current-year performance measure information.	■ Annual report ■ Shareholder's letter of agreement ■ Accountability contract/ agreement/letter ■ Achievement contract (growth plan) ■ Other	■ Used by Office for internal purposes. Not intended for inclusion in our final report. ■ The Office used this information to identify key external reporting document the organization used to report on its current performance.
9. Fiscal year of the most recent performance measures examined in survey.	■ March 31, 2007 ■ June 30, 2007 ■ December 31, 2007 ■ March 31, 2008 ■ June 30, 2008 ■ March 31, 2009 ■ Other	■ Used by Office for internal purposes. Not intended for inclusion in our final report. ■ The Office used this information to ensure the timeliness of reporting information provided to external parties.
Criteria used to evaluate and classify the performance measures being examined		
10. Number of performance measure, as indicated in the client report.		■ Used by Office for internal purposes. Not intended for inclusion in external report. ■ The Office used this information to identify specific performance measures within a given performance reporting document.
11. Performance measure name, as indicated in the client report.		■ The Office used this information to identify the specific performance measure examined.

Appendix A

Evaluation Criterion Used by the Office	Response Options	Rational for Selection of Evaluation Criterion
12. Brief description of the measure and what it purports to measure.		■ Used by Office for internal purposes. Not intended for inclusion in external report. ■ The Office obtained this information to help understand the specific performance measure examined. This information helped provide the context for evaluating the measure against the other examination criteria.
13. Type of performance measure being reported on.	■ Input = resources used ■ Output = quantity of results achieved ■ Outcome = results beyond mere output ■ Efficiency = output/input or output/time ■ Other	■ The Office used this information to identify and categorize the nature of performance information being reported in the performance measure.
14. Attribute of performance is being tracked with the performance measure.	■ Accuracy ■ Effectiveness ■ Fairness ■ Timeliness ■ Other	■ The Office used this criterion to identify and categorize the attributes of performance information being reported in the performance measure.
15. Degree of influence the reporting organization has over the performance measure being reported.	■ Direct ■ Indirect ■ Other	■ The Office used this criterion to determine whether reporting organizations are focusing on the results of their activities (the Office anticipates there should be some number of indirectly influenced performance measures being reported by public sector organizations).
16. Performance measure relies on audited financial statement results for some part of its calculation?	■ Yes ■ No ■ Not sure	■ The Office did not report on this criterion in the report because the results were inconclusive. The Office used this information to support later criterion of whether reported results appeared to be reliable.
17. Performance measure includes a stakeholder survey?	■ Yes ■ No	■ Used to identify those measures that involve surveying one or more stakeholder groups. Rationale was that stakeholder opinion surveys reflect the overall outcome/result of reporting organization activities.

Appendix A

Evaluation Criterion Used by the Office	Response Options	Rational for Selection of Evaluation Criterion
18. Performance measure is being used by other organizations of that type within the province, nationally, or internationally (measure is a benchmark)?	■ Yes ■ No	■ Used to identify whether the reported performance measure is a benchmark and would allow comparison with some other like organization in assessing management performance.
19. Performance measure is consistent with the prior- year three-year service plan (or similar planning document)?	■ Yes ■ No	■ Used to determine whether the reported measure is consistent with what the organization said it would report on.
20. Performance measure is included in following year's three-year service plan?	■ Yes ■ No	■ Used to determine whether the examined measure will continue to be reported on in the future.
21. Prior-year performance results are reported for this performance measure?	■ Yes ■ No	■ Used to determine whether the report includes historical performance measure results (to help the reader evaluate the performance trend over time).
22. Current-year target reported for this performance measure?	■ Yes ■ No	■ Used to determine whether the report includes the current-year target for the reported measure (to help the reader evaluate the performance relative to what it said it would achieve in the reporting year).
23. Organization achieved the current year's target for this performance measure?	■ Yes ■ No	■ The Office used this criterion to help determine whether the performance measure targets were attainable (as part of our "SMART" assessment described below). ■ Used to try to determine whether the organization is setting overly easy-to-obtain targets.
24. Future-year targets for this performance measure are being reported along with current-year results?	■ Yes ■ No	■ Used to determine whether report contains sufficient information to help the reader evaluate organization performance over time (to frame the current-year measure results relative to where the entity says that it is going in the future).

Appendix A

Evaluation Criterion Used by the Office	Response Options	Rational for Selection of Evaluation Criterion
25. Performance measure meets the "SMART" criteria.	■ The "SMART" criteria provide a useful and commonly applied standard to determine whether a reported performance measure and its related target are "good" evaluators of organization performance.	
a. Specific?	■ Yes ■ No	■ This criterion attempts to evaluate whether the performance measure is specific enough to provide meaningful information to report users.
b. Measurable?	■ Yes ■ No	■ This criterion attempts to determine whether the performance attribute being tracked with the measure is actually quantifiable.
c. Attainable?	■ Yes - Future-year target appears to be attainable. ■ No - Future-year target does not appear to be attainable.	■ This criterion attempts to determine whether the reporting organization has established realistic targets for itself (this is necessary if performance against these future targets is to provide meaningful insight into actual results). ■ The Office recognizes that this is a highly subjective evaluation criterion, because it involves guessing what might happen in the future. ■ In making our assessment of whether a performance measure target was attainable or not, we considered whether the current year's target had been met, what the overall trend in performance measure results have been over time, and whether there were any new programs or initiatives described in the performance report that might have a significant influence on the future year's results.
d. Reliable?	■ Yes ■ No ■ Don't know	■ The Office recognizes that this is a subjective criterion, because it involves assessing the reliability of reported performance information in the absence of that information having been audited. ■ In making our assessment of this criterion, we considered whether the reported performance information relied on or integrated audited financial results, or were based on a stakeholder survey conducted by a third-party surveyor. The Office also considered whether there were any other disclosures in the annual performance report that spoke to the reliability of the disclosed performance measure result.
e. Time-bound?	■ Yes ■ No	■ This criterion assesses whether the performance measure results and targets are defined within a specific reporting year.

Appendix B: Organizations Examined in the Survey, by Type of Organization

College/University (15)

- British Columbia Institute of Technology
- Capilano College
- College of New Caledonia
- Douglas College
- Justice Institute of British Columbia
- Langara College
- North Island College
- Okanagan College
- Royal Roads University
- Selkirk College
- Simon Fraser University
- The University of British Columbia
- Thompson Rivers University
- University of Northern British Columbia
- University of Victoria

Crown Service Delivery Agency (17)

- BC Games Society
- BC Immigrant Investment Fund Ltd
- British Columbia Assessment Authority
- British Columbia Housing Management Commission
- British Columbia Securities Commission
- British Columbia Transit
- Columbia Basin Trust
- Community Living British Columbia
- Forestry Innovation Investment Ltd
- Homeowner Protection Office
- Industry Training Authority
- Legal Services Society
- Oil and Gas Commission
- Partnerships British Columbia Inc.
- Provincial Capital Commission
- Provincial Rental Housing Corporation
- Tourism British Columbia

Appendix B

Commercial Crown Corporation (5)

- British Columbia Liquor Distribution Branch
- British Columbia Lottery Corporation
- British Columbia Railway Company
- Columbia Power Corporation
- Insurance Corporation of British Columbia

Health Authority (6)

- Fraser Health Authority
- Interior Health Authority
- Northern Health Authority
- Provincial Health Services Authority
- Vancouver Coastal Health Authority
- Vancouver Island Health Authority

Hospital (1) (not named here to preserve anonymity in our external reporting)

Ministry (15)

- Ministry of Advanced Education and Labour Market Development
- Ministry of Aboriginal Relations and Reconciliation
- Ministry of Agriculture and Lands
- Ministry of Children and Family Development
- Ministry of Community Development
- Ministry of Education and Minister Responsible for Early Learning and Literacy
- Minister of Energy, Mines and Petroleum Resources
- Ministry of Environment
- Ministry of Finance and Minister Responsible for the Olympics
- Ministry of Forests and Range
- Ministry of Health Services
- Ministry of Labour and Citizens' Services
- Ministry of Small Business and Revenue and Ministry Responsible for Regulatory Reform
- Ministry of Tourism, Culture, and the Arts
- Ministry of Transportation and Infrastructure

Appendix B

Other (3)

- Public Guardian and Trustee of BC
- Vancouver Convention Centre Expansion Project
- WorkSafeBC (Workers' Compensation Board of British Columbia)

School District (10)

- School District No. 19 (Revelstoke)
- School District No. 28 (Quesnel)
- School District No. 33 (Chilliwack)
- School District No. 34 (Abbotsford)
- School District No. 40 (New Westminster)
- School District No. 43 (Coquitlam)
- School District No. 49 (Central Coast)
- School District No. 57 (Prince George)
- School District No. 71 (Comox Valley)
- School District No. 83 (North Okanagan-Shuswap)

Thank you for providing government with the opportunity to respond to the Office of the Auditor General's report "How are We Doing? The Public Reporting of Performance Measures in British Columbia".

The government remains committed to ensuring that the measures used by government organizations to track and report on performance contribute in a meaningful way to transparency and accountability to the public, as well as to an understanding of the effectiveness and progress of individual organizations.

Government agrees with the Office of the Auditor General's comments that the level of maturity of performance reporting in British Columbia is high. Particularly encouraging are the Office of the Auditor General's findings that performance measures consistently meet the "SMART" criteria for good performance measures. In addition, the use of benchmark measures and stakeholder surveys, as well as the availability of up-to-date performance results on public websites, are practices that contribute to the quality of performance reporting in British Columbia.

Government also agrees that the Service Plan and Annual Report guidelines and templates provided to Ministries and Crown Agencies have had a positive influence on raising the standard of performance reporting in British Columbia.

With respect to the specific recommendations from the Office of the Auditor General, government offers the following comments:

1. ***Central agencies provide guidance to organizations encouraging them to keep the number of performance measures to a minimum and focused on the few critical results.*** Government agrees that the number of performance measures needs to be reasonable and focussed on critical aspects of performance. Through Service Plan and Annual Report guidelines, central agencies currently provide guidance to Ministries and Crown Agencies on the appropriate number of performance measures to be disclosed in their annual performance reports, and the importance of focussing on critical results. At the same time, government recognizes that a one-size-fits-all approach across all types and sizes of organizations is neither desirable nor possible; what works for Ministries may not be suitable for health authorities or commercial Crown corporations, for example.

2. ***Central agencies provide guidance to organizations encouraging them to increase the number of efficiency measures they disclose in their annual performance report.*** Government agrees that efficiency is one of the types of performance measures that should be considered. At the same time, in an effort to maintain a reasonable number of measures and to focus on the few critical aspects of performance, individual organizations will need to evaluate whether efficiency measures are better suited than other types of measures to best inform the public and legislators of how well the organization is progressing towards its goals.

3. ***Central agencies provide guidance to organizations encouraging them to report on the accuracy and timeliness of their operations.*** Government agrees that performance measures focussed on accuracy and timeliness may be suitable for some organizations, but will not be appropriate for all. Individual organizations will need to evaluate whether performance measures focussed on accuracy and/or timeliness will provide meaningful insight into the organization's performance compared with other types of measures.

4. ***School districts include current-year targets for all performance measures disclosed in their accountability or achievement contract reports.*** The Ministry of Education and the boards of education work together in a co-governance model. The achievement contract is provided for in the School Act (s. 79.2) and is a public statement of commitment by a board of education to improve success for each student in the district. Guidelines provided by the Ministry convey that achievement contracts cover a three-year planning horizon and include targets specific to areas of need and priority. Targets are to be both short-and long-term. Each contract is developed collaboratively, involving members of the school community. The Ministry will encourage school districts to include current-year, student-focussed targets in their achievement contract reports.

5. ***The Ministry of Health Services not require health authorities to include all of the performance measures contained in their Government Letter of Expectations in their annual service plan report.*** Alternative reporting mechanisms should be developed for those measures that have been removed from the service plan reports. The Ministry of Health Services recognizes the need to refine the performance measures for health authorities to ensure a focus on key results. At the same time, the performance measures currently used are designed to reflect the breadth and depth of the health care system, across a continuum of health care services and differing populations. The Ministry acknowledges the importance of alternative reporting mechanisms, and agrees that performance measures for the purposes of public reporting could be different from those outlined in the Government Letters of Expectations, which are used by government to monitor the performance and ensure accountability of health authorities. Discussion with and further guidance from the Office of the Auditor General is required to better understand the criteria that might be used to select performance measures for the service plan, and the particular challenges this poses for the health sector.

6. ***The Ministry of Health Services define specific targets for every performance measure contained in the health authorities' Government Letter of Expectations, and include performance measure targets for each year covered by the upcoming three-year service plan.*** The Government Letter of Expectations provided to each health authority does, in fact, include a target for every performance measure that is specific to that health authority. While the Ministry of Health Services strives to use numeric targets for each performance measure, it is not always possible to do so due to data quality issues. The Ministry agrees that long-term targets should have dates associated with them, but considers three-year targets incompatible with the Government Letter of Expectations, which is a single year document.

We thank the Office of the Auditor General for their comments and suggestions for improving performance measures. We are confident sustained efforts by government and the Office of the Auditor General will continue to keep British Columbia at the forefront of public performance reporting.